**BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2018/19 ANNUAL REPORT OF THE CASTLE CONTROL BOARD (CCB), ARMSCOR, AND THE OFFICE OF THE MILITARY OMBUD, DATED 23 OCTOBER 2019.**

*This Report consists of three parts, with Part A dealing with the Castle Control Board (CCB);*Part B dealing with the Armaments Corporation of South Africa (ARMSCOR); and Part C dealing with the Office of the Military Ombud.

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2018/19 annual reports of the Castle Control Board (CCB), the Armaments Corporation of South Africa (ARMSCOR) and the Office Military Ombud on 16 October 2019, reports as follows:

PART A: CASTLE CONTROL BOARD (CCB)

1. **Description of core functions of the Castle Control Board**

The mandate of the Castle Control Board (CCB) is derived from the Castle Management Act, 1993 (No. 207 of 1993) which requires it to preserve and protect the military and cultural heritage of the Castle of Good Hope (CGH), South Africa’s oldest architectural structure - on behalf of the Minister of Defence and Military Veterans. Both the National Heritage Resources Act (No. 25 of 1999) and the Defence Endowment Property and Account Act (No. 33 of 19922) also cover certain aspects of the mandate. This Report will focus on the:

* Strategic Overview for the 2018/19 Financial Year with specific reference to Strategic Priorities of Government and Strategic Priorities of the CCB.
* Overview and Assessment of Financial Performance with specific reference to the Appropriation statement for the 2018/19 financial year; Financial statements; and Findings of the Auditor General of South Africa.
* Overview and Assessment of Programme Performance focusing on the four Programmes.
* Governance and Human Resources.

1.1Budgetary Review and Recommendations Report (BRRR)

The scrutiny of the annual reports of departments and entities has as one of its aims, the facilitation of the drafting of the annual Budgetary Review and Recommendations Report (BRRR) of parliamentary committees. Therefore, a second aim of this analysis is to assist the Committee to draft its BRRR.

1.1.1.Purpose of the BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (No 9 of 2009) allows for each Committee to compile a Budgetary Review and Recommendation Report (BRRR) which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

1. an assessment of the department’s service delivery performance given available resources;
2. an assessment on the effectiveness and efficiency of department’s use and forward allocation of available resource; and
3. recommendations on the forward use of resources.

In October of each year, parliamentary portfolio committees compile a BRRR that assess performance given available resources; evaluates the effective and efficient use and forward allocation of resources; and makes recommendations on the forward use of resources. The BRRRs are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The review and analysis of the previous financial year’s performance of departments and entities, in this case the Castle Control Board (CCB), as well as performance to date, form part of this process.

2.STRATEGIC PRIORITIES OF GOVERNMENT AND STRATEGIC PRIORITIES OF THE CCB.

1. **The National Development Plan**

The NDP and its related policies provide a national framework that will inform the contribution by national departments and public entities. Aspects relevant to the CCB and their envisaged contribution are as follows:

* **Tourism:**The Castle of Good Hope (CGH) as a premier heritage tourism destination is part of important debates and regularly engages with the tourism industry, government departments, donors and partners to contribute toward the NDP outcomes and targets. CCB Programme 3 deals with Tourism Management and the organisational objective aligned to the NDP is “To maximize the tourism potential of the CGH.”

* **Envisaged Reduction in Youth Unemployment:**The CCB is running a programme for youth job shadowing and internship. This initiative will be strengthened and refined over the MTEF. In this regard the CCB is working with the Culture, Arts, Tourism, Hospitality and Sports Sector Education and Training Authority to access some of their resources. The CCB’s output objective in Programme 4, which is aligned to the NDP, is “Delivering a range of public programmes with SA schools, cultural groups and special community groups.”

* **Strengthening the National Research and Development Capacity:**The CCB is very mindful of the historical significance of the CGH and its collections. These offer significant opportunities in the areas of education and research. The organisation has a small resource centre which it plans to expand. The CCB will establish a CCB Strategic Research capability, particularly to record, monitor and share the lessons of the multi-million rand renovations project. The link with the NDP is CCB Programme 2 “Ensure the maintenance, preservation, interpretation and showcasing the history of the Castle.”

* **Fraud and Corruption:**The CCB will intensify its campaign in fighting fraud and corruption. CCB Programme 1 refers to “Ensure clean, sound administration and good governance”. The

organisation is involved in a process to review its legislation and has strengthened most of its critical internal controls to ensure a sound, corruption and crime-free organisation.

2.2The Medium Term Strategic Framework (2014 - 2019)

The MTSF Outcomes to which CCB will contribute by virtue of its legislative mandate and inherent capabilities are as follows:

**MTSF Outcomes 4 and 5:**“A skilled and capable workforce to support an inclusive growth path” and “Decent employment through inclusive economic growth” are linked to the CCB Programme “To maximise the tourism potential of the CGH” with the following outcomes set out in the CCB Strategy Map:

* Deliver a complete offering of visitor services and experience;
* Human resource development and adequate staffing levels;
* Implement a revenue generation plan; and
* Responsible commercialisation drive.

**MTSF Outcome 12:**“An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship” is linked to CCB programmes 1 and 2, namely “Ensure clean, sound administration and good corporate governance” and “Ensure the maintenance, preservation, interpretation and showcasing of the history of the Castle.” These are linked to the following Strategic Map outcomes:

* Effective and efficient systems of internal control;
* Sound financial control;
* Research and international benchmarking; and
* Integrated resource management.

2.3Sustainable Development Goals

The 17 SDGs and 169 targets which form the SDGs demonstrate the scale and ambition of this new universal Agenda. These SDGs seek to build on the Millennium Development Goals and complete what they did not achieve. These SDG and targets will stimulate action over the next 15 years in areas of critical importance for humanity and the planet. The CCB by virtue of its legislative mandate will indirectly support selected SDGs as furthermore directed through the current 2015 – 2020 MTSF.

2.4Committee 2017/18 Budget Report

The PCODMV identified the following areas which will be subject to monitoring by the Committee throughout the 2017/18 financial year:

* The Committee encouraged the CCB to ensure that it enhances its efforts to improve the revenue generation options of the CCB, as proper funding is essential for the sustainability of this national heritage asset.
* The CCB was encouraged to ensure that its utilisation of terminology is consistent and does not lead to confusion regarding, for instance, the number of posts.
* The CCB should assist to resolve the controversy around Ms Murphy statue in order for them to proceed with this project.
* The CCB should step up its revenue generation initiatives in order to avoid a situation where the historic surplus is being totally depleted.
* The CCB is encouraged to further enhance its efforts to assist and support military veterans with their training and related requirements, if and where possible.
* The Committee recommended that the CCB should speed up the process to amend the Castle Management Act to facilitate its sole ownership/management of the Castle.
* The ill-discipline of soldiers doing guard duty at the CGH is a major concern as it not only impact on the CGH’s image but also impact negatively on the image of the CGH.
* The CCB is advised to ensure that there is consistency regarding the figures between the various financial years in order to allow for proper comparisons.
* The Committee advised the CCB that the issue of Het Bakhuys and other officers, messes need to be clarified with the DOD and their views should be accommodated in addressing this issue.
* The CCB was encouraged to further enhance the status of the CGH as a national and especially UNESCO Heritage site given the added benefits attached to such status.
* The Committee commends the Castle Control Board for the strides made in establishing the required internal controls and establishing systems that will ensure that the entity complies with national norms and standards. However, it recognises that greater creativity is required to ensure that the Castle further enhances its self-sufficiency in terms of funding.
* The Committee is concerned about vagrancy and crime around the Castle, the impact of renovations on daily operations, as well as the ability of the CCB to substantially increase its revenue to ensure its financial sustainability.

2.52017/18 Budgetary Recommendation and Review Report

The Portfolio Committee made the following Recommendations regarding the CCB in its 2017/18 BRRR:

* Although the CCB indicated that they have a remedial plan to address the *Going Concern*issues, the Committee recommended that the CCB should further enhance its efforts to raise the revenue levels and to depend less on external sources of funding such as a the R4.5m subsidy, utilisation of the historic surplus, and the mooted possibility of a direct funding grant from National Treasury.
* The Committee commended the CCB for the progress made with ensuring that the CGH is safer and more secure for staff and visitors but stressed that these efforts should be sustained to prevent negative publicity in this regard.
* The CCB indicated that given the dire financial status of the CCB for the year under review, it is unlikely that performance rewards will be paid. The Committee stressed that in future, the CCB should indicate the amounts paid out for the preceding financial years in order to establish what transpired in this regard. Specifically, the CCB should provide the Committee with the amounts for the performance rewards for the three preceding years the 2017/18 financial year.
* The CCB explained that the amount of R220 000 incurred as irrecoverable related the cancelation of a training and refurbishment project that DMV wanted to recover as the amount they paid to the service provider through the CCB. The Committee expressed its concern regarding the transaction and implored the CCB to ensure that such transactions are managed in terms of acceptable accounting procedures and that the Auditor-General’s approval is sourced.
* The CCB indicated that the Castle Military Museum Foundation was a private institution and that its closure will not have any impact on the Castle. The Committee requested that the CCB kept it informed about developments in this regard to ensure that this remain the case.
* The ring-fenced R4.5 m annual “subsidy” is to be managed by the Chief of Logistics of the SANDF through the General Support Base (GSB) in Simonstown and the CCB will not have direct access to it. The Committee encouraged the CCB to ensure that the subsidy is indeed utilised for this purpose to facilitate the sustainability and good condition of the CGH after more than R100 million has been spent on renovating it.
* The CCB indicated that hiring of the facility is done through a deposit and that the amount is determined by the kind of activity, the number of people expected, that cancelation fees are required when applicable, and that damages are compensated for when incurred. The Committee recommended that such the renting out of the facility should be strictly and properly recorded in order to ensure that the CCB gets the full amount due to it. The Committee also recommended that the CCB should target "upper market clientele” to further enhance the image of the CGH as a destination for events and functions around Cape Town.
* The CCB indicated that the signing of a shareholder’s agreement with the Ministry would provide the CCB with a legal basis to engage other government departments, as their legal basis for doing so, can currently be queried. The Committee wants the CCB to keep it abreast of developments in this regard and should challenges be encountered, the Committee is willing to assist.
* The CCB indicated that there is an improvement in the revenue generated, but the Committee recommended that serious and urgent attention be paid to this strategy given that the financial sustainability of the CGH is being doubted. The Committee also wants the CCB to submit its revenue projections, regarding the ticket sales, functions, Iziko’s share of ticket sales, centers, etc, to the Committee as a matter of urgency.

2.6Strategic Outcome oriented goals

The 2018 Annual Performance Plan (APP) of the CCB referred to its Strategic Outcome oriented goals as:

* To ensure effective administrative management in terms of corporate governance and professional competent corporate image.
* To develop the museum and interpretative components of the Castle and its related themes through continuous research and development.
* To ensure promotion of the Castle as a must-see and vibrant tourist destination accessible to all the citizens of South Africa and the world.
* To ensure the accessibility of the Castle as an attractive and user-friendly centre of cultural significance by all sectors of the community.

2.7Highlights

The Chairperson of the CCB highlighted the following:

* An unqualified audit opinion from the AGSA.
* The appointment of the gardening and maintenance service provider.
* Managing to open the doors of the Castle of Good Hope (CGH) to an inclusive, multi- cultural and diverse visitor audience.
* Attracting 201,756 visitors which translated into concomitant revenue of R5,7 million.
* Progress in the development of the Integrated Conservation Management Plan.
* The Department of Military Veterans (DMV) has transferred the Conference Centre for Memory, Healing and Learning to the CCB. This effectively moved the CCB from a deficit of R2,630,141 in 2018 to a surplus position of R 2,000,757 in 2019.

2.8Challenges

These include the following:

* Regressing to an unqualified audit opinion from two consecutive clean audit opinions.
* Attempts to wind down the Castle Military Museum Foundation.
* Managing negative perceptions caused by claims of corporate infringements against the CCB, which led to the five staff members departing.
* *Going concern*status. Freezing of vacant positions in the interim to secure its going concern status.
* The urgent need for a nominal operational subsidy for the organisation, between R850k and R1.2m per annum from the DOD, in addition to the annual R4.5 million maintenance and repairs support from the DOD.
* For the last time, the CCB had access to the historically accumulated surplus of the CCB.
* Little progress to review the Castle Management Act (No. 207 of 1993), which started in July 2013.
* Tackling the safety and security risks at the entrance and around the Castle.
* Finalising the space-allocation, utilisation and sustainability of the Castle Control Board.

3.OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

1. **A brief overview of the performance of the CCB for FY2017/18**

The CCB highlights various achievements which should be commended. This includes the appointment of a gardening and maintenance service provider, attracting a significant number of tourists, and having received a donation in kind from the DMV to the value of more than R3 million. The fact that there is no irregular spending, no unauthorised expenditure and no fruitless and wasteful expenditure for the second year running, is also commendable.

Of concern however, is the under collection in revenue regarding Rental income and Interest income. Of more concern is the *Going concern*status of the entity as attested to by the CCB

themselves and the A-G. This especially against the background that little progress has been made to substantially – given the expenditure – improve the financial viability of the CCB. This coupled with the substantive percentage (75%) of the budget for personnel expenditure, is seriously concerning. This means that the *Responsible Revenue Generation Plan*needs to urgently start delivering on its promises to substantively increase the revenue of the CCB.

Overall, the entity achieved 83.3% or 15 of its 18 targets with a spending of 89.9% of its allocated budget. The fact that the Department of Defence has allocated a R4.5 million ring-fenced transfer to the CCB, and that it has nearly depleted the historical surplus, and that it is now asking for ‘a nominal operational subsidy for the organisation between R850 000 and R1.2m per annum from the DOD, seems to underline the concerns around its *Going concern*status. It needs to be asked, when will the focus be primarily on increasing its revenue in terms of the much-vaunted *Responsible Revenue Generation Plan,*instead of approaching other agencies for financial assistance.

3.2Financial Performance for the 2018/19 Financial Year

The CCB had an *underspending*of R789 000 for FY 2018/19 against an underspending of R85 000 for the previous financial year. This is mainly due to the underspending of R527 000 in Administration Programme, R295 000 in the Conservation Programme, R57 000 in the Tourism Promotion Programme, while there was an overspending of R90 000 in the Public Access Programme.

Budget for FY2016/17 to FY2018/19

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Programme | 2016/17**R’000                 (***R**thousand)* | 2017/18**R’000 (***R thousand)* | 2018/19**R’000 (***R thousand)* |  (Over)/Und er Expenditure |
|   | Budge t | Actual Expenditure | Budget | Actual Expenditure | Budge t | Actual Expenditure |
| Administration | 6 637 | 8 010 | 7 683 | 7 565 | 7 061 | 6534 | 527 |
| Conservation | 369 | 260 | 528 | 570 | 525 | 230 | 295 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| TourismPromotion | 41 | 30 | 63 | 39 | 60 | 3 | 57 |
| Public Access | 1 167 | 1 640 | 264 | 279 | 204 | 294 | (90) |
| Total | **8 214** | **9 940** | **8 538** | **8 453** | **7 850** | **7 061** | **789** |

**Revenue FY 2018/19**

|  |  |  |  |
| --- | --- | --- | --- |
|  **Source of revenue** | **2016/17** | **2017/18** | **2018/19** |
| **Estimate** | **Amount****collected** | **Estimate** | **Amount****collected** | **Estimate** | **Amount****collected** | **(Over)/under****collection** |
| ***R’000*** |
| **Sales** | 4 000 | 2 295 | 4 500 | 4 124 | 5 000 | 4 383 | 617 |
| **Rental****income** | 3 410 | 1 139 | 3 465 | 1 132 | 2 220 | 1 322 | 898 |
| **Other****income** | 204 | 163 | 324 | 450 | 575 | 3 243 | (2 768) |
| **Interest****income** | 600 | 397 | 249 | 117 | 55 | 14 | 41 |
| **TOTAL** | **8 214** | **3 994** | **8 538** | **5 823** | **7 850** | **9 062** | **(1 212)** |

Similar to the FY2016/17 and FY2017/18 comments, the CCB states that “*Sales income is in line with our estimates for the year. However, the provision made to compensate for the access to our historic surplus funds, skews this estimate thus painting a picture of under-performance.”*

The CCB Annual Report explains that regarding *Other income*that *“The anticipated income from the restaurant, rental of office space, income from curio shop did not come to fruition and was lower than expected.”*because *“A new service provider to run the restaurant was appointed in October 2 017 and hence revenue expected from the restaurant was lower than expected.”*This against the background that the previous Annual Report stated **bullishly**that “*However, their R500 000 turnover over the first period of trading, is indicative of the potential of this revenue center which will be expanded to include a fully-fledged food and beverage catering service*.”

Similar to the previous two Annual Reports (FY2016/17 and FY2017/18) the 2018/19 Annual Report states that the CCB plans to address the revenue challenge through *inter alia*the roll-out of their Revenue Generation Strategy. They have opened a Gift Shop, started to promote the state- of-art Conference Centre to generate income, recruited a new restauranteur to improve turnover and will focus on high-yield events for the site. In the areas of administration, they will settle their human resource component.

3.3Financial statements

**Irregular expenditure**

No irregular expenditure has been listed for the FY2018/19 similar to FY2017/18 versus the  R57 195 for FY2015/16 and R1.724 869 in FY2016/17.

Unauthorised Expenditure and Fruitless and Wasteful Expenditure

For the third year running, no unauthorised expenditure nor Fruitless and Wasteful Expenditure were incurred during the year under review, nor in the previous financial year.

3.4Findings of the Auditor-General of South Africa

The CCB received an **unqualified audit opinion**from the AGSA versus the clean audit opinions for FY2016/17 and for FY2017/18. This audit opinion relates specifically to the financial statements.

3.4.1Going Concern

In addition to what was referred to earlier regarding the *Going Concern*status of the CCB, the following should be noted. Similar to FY2017/18 the A-G notes that the “*Material uncertainty relating to going concern*” stating that the surplus is due to the in-kind donation. Further that “*These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern.”*

The CCB is of the opinion that they are *“the organisation will remain a going concern in the foreseeable future. Our basis for this assertion is the time-tested formula of reducing expenditure and increasing revenue to balance a relatively small annual budget of R7 million.”*

*“The Board is aware of financial challenges that have a negative impact on the CCB’s ability to continue as a going concern. However, the Board believes that the CCB has access to adequate financial resources, through the intervention of the Ministry of Defence, to continue operations for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.”*

3.4.2Emphasis of matter

The AGSA states in this regard under the heading *Restatement of corresponding figures*that “*the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2019*.” This refers to the discovery that during the 2019 financial period, it was discovered that the 2018 financial statements were misstated. The entity did not recognise the services-in-kind income of R 270 000 and corresponding expenditure of R 270 000 in the statement of financial performance.

4.OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE

**Non-financial performance**

The Annual Report 2018/19 indicates that three (3) of the CCB’s 18 key performance indicators were missed, similar to the achievement in FY2017/18. Fifteen (15) of the 18 targets were thus met against a spending of 89.9%.

4.1Programme 1: Administration and Good Corporate Governance

All four APP targets were met, against underspending of R527 000 versus an overspending of R118 000 on this programme in the previous financial year. This programme deals with areas of administration, corporate governance, financial management, human resource management and stakeholder communication.

4.2Programme 2: Preservation, Interpretation and Showcasing of the History of the Castle

One of the 4 targets was missed namely “*Percentage completion of scheduled repair and maintenance work*against underspending of R295 000 versus an overspending of R42 00 versus in the previous financial year.

4.3Programme 3: Maximising the Tourist Potential

Five of the six APP targets were met, a success rate of 83.33 %, against underspending of R 57 000 versus an underspending of R24 000 in the previous financial year.

4.4Programme 4: Increased Public Profile and Positive Perception Across all Sectors of the Community

All four targets in this programme have been achieved and the CCB did well in this regard and should be lauded for this achievement. The decrease of the *Number of student-learnerships and internships offered per annum,*has however decrease from 26 in the previous financial year to 15, even though this was the annual target. Given the challenges of youth unemployment in the country, the CCB should be encouraged to maximise the learning opportunities for the youth at the CGH.

5.GOVERNANCE

The Annual Report refers to various issues under this section, *inter alia*its engagements with the Portfolio Committee, that it operates as a Schedule 3A Public Entity, and it states that a Risk Register has been developed to determine the effectiveness of its risk management strategy and to identify new and emerging risks.

5.1Risk Management

The CCB indicates that Management has developed a Risk Register (adopted by the Board), which forms the basis for regular risk assessments to determine the effectiveness of its risk management

strategy and to identify new and emerging risks. While the Annual Report for FY2017/18 listed the various Strategic Risks, this is not done for the year under review. These risks included the shortcomings in the Castle Control Board’s founding Act; the safety and security concerns of staff and visitors to the Castle; and finalising the space-allocation, utilisation and sustainability of the Castle Control Board.

5.2Fraud and corruption

As in the previous Annual Report, CCB states that it does not have an anti-criminality plan but has a fully-fledged Fraud Prevention Policy. It aims to make losses due to fraud and corruption intolerable and will institute training covering these aspects. It states that criminal activities would more likely be internally induced, and feels that the Department’s guidelines in this regard are sufficient to deal with the issue. Specifically, it refers to “*During the financial year, the CBB*(sic) *came under malicious attacks by individuals and organizations who clearly did not share our interest, values and philosophy. These bouts included the hitherto unproven allegations of corporate governance infringements; so-called heritage maintenance lapses occurring under our brief*.” and that “*The IG could find no incidences of the alleged endemic “fraud and corruption” mooted in the media by some of our detractors*.” Further*, “Instead, the Board, through its own robust internal control and administrative systems, dealt with two staff members who made themselves guilty of misconduct. Both were successfully trialled and dismissed from our organization.”*

6.HUMAN RESOURCES

The CCB had a team of 13 (16 in FY2017/18) full time CCB staff members at the end of FY2018/19, while 5 left during the FY2018/19. They had access to 3 museum artists paid by the DOD, 35 (26 in FY2017/18) short term staff (interns) bringing the staff complement to 48 or 51 if the 3 museum artists are included. The CCB however indicates that they had 53 (54 in FY2017/18) staff members for the FY2018/19.

The total expenditure for employees was R 4 901 000 for FY2018/19 *(R5 797 000 in FY 2017/18 and R5 939 000 in FY2016/17)*of the Castle’s total expenditure of R6 534 000 *(R8 453 000 in FY*

*2017/18 and R9 939 000 in FY 2016/17)*which represents a 75% *(68.57% in FY 2017/18 and 54*

*% in FY2016/17)*of personnel expenditure as a percentage of total expenditure.

6.1Performance rewards

As opposed to the previous financial year, no provision has been made for performance rewards for staff members of the CCB. “*Performance bonus incentives were foregone owing to the negative cash flow.*” Performance rewards for FY 2017/18 were R386 553 and R368 935 in FY2016/17).

*“Performance Bonuses accrue to senior managers and have been provided for at a maximum allowable amount according to the employment contracts and performance contracts of those individuals who may qualify or be considered for a bonus.****The actual amount payable cannot be determined until performance evaluation processes have been duly completed by the Board****. Any bonus that may be or become payable would ordinarily be paid within the next 12 months.”*

Table 3: Remuneration of key management

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **2016** | **2017** | **2018** | **2019** |
| **CEO: Remuneration** | 825 869 | 903 476 | 985 920 | 1 040 146 |
| **CEO:**PerformanceBonus | 165 174 | 90 347 | 98 592 | (0) |
| **CFO: Remuneration** | 644 636 | 705 246 | 794 127 | 841 775 |
| **CFO:**PerformanceBonus | 128 927 | 70 524 | 79 413 | (0) |

1. **Employee related costs**

The Report indicates that the cost related to employees for FY2018/19 was R4 901 388 (*in FY 2017/18 it was R5 796 662*) and in FY 2016/17 it was R5 393 000 and R3 361 566 in FY2015/16. It was R3 092 162 in FY 2014/15 and R1 775 000 in FY 2013/14. The 2014 CCB APP noted a trade surplus fund of R13.9 million and the 2015 and 2016 APP’s only refers to an amount of R9.378 million.

7.COMMITTEE OBSERVATIONS: CASTLE CONTROL BOARD (CCB)

The following observations were made by the Portfolio Committee during its engagement with the CCB on 16 October 2019:

* The Committee wanted to know what were the reasons for the CCB to regress from a Clean Audit opinion to an unqualified audit opinion, especially given that the A-G stated that the CCB did not properly account for offices at the Castle and that a donation of a Conference Centre from DMV was not included in the books.
* The CCB is focused on attracting visitors, and the Committee enquired about the split between local and foreign visitors and whether South Africans are paying a preferential tariff as is commonly found with other tourist attractions in the country.
* The security situation at the Castle of Good Hope continues to pose challenges and the Committee enquired about the latest in this regard and especially if the other local law enforcement agencies are assisting the CCB with this challenge.
* The financial sustainability of the CCB was raised as a serious concern by the Portfolio Committee given that the A-G found the current situation unsustainable and was in particular apprehensive about its *Going concern*status. The Committee wanted to know what were the plans of the Board to turn this situation around and ensure a surplus. This was also raised against the background that the historically accumulated surplus of R13 million is nearly depleted
* The Committee expressed its disquietedness that almost R500,000 has been paid for AGSA, and that an additional R60 000 was required if a clean audit opinion was to be verified. These amounts are very high given the approximate R8 million annual budget of the CCB.
* The Committee enquired about the frozen posts, namely that of the Marketing and events managers and whether these are critical posts and whether the interns currently being used in these posts, are coping with the demands of these positions?
* A particular concern was raised around the reduction of intern posts from 26 to 15 and whether this was in a specific field. Given the presentation from the CCB, it was clear that they have the capacity to double this number.
* The Committee noted that the CCB can play a more enhanced role to address nation- building through outreach programmes and making the facility available for projects to address the socio-economic challenges.

COMMITTEE RECOMMENDATIONS: CASTLE CONTROL BOARD (CCB)

The Portfolio Committee made the following recommendations to the CCB:

* The Committee recommends that the leadership of the CCB should put the necessary controls and measures in place to ensure that all assets and financial transactions are properly and correctly captured to facilitate an improved audit opinion.
* The CCB is focused on attracting visitors, both local and foreign and does it have a preferential rate for locals. The Committee therefore encouraged the CCB to enhance its marketing abroad and to consider a preferential rate for locals.
* Although the security within the CGH has been improved, the CCB is experiencing challenges with security around the CGH given that this is in the purview of the Metro Police and the SAPS. The Committee therefore recommends that the CCB engage further with these agencies and, if need be, solicit the assistance of the Portfolio Committee on Police to address this challenge.
* The financial sustainability of the CCB is precarious and the Committee recommends that the CCB enhance its revenue generation activities further and that it should present an action plan to the Committee by the end of March 2019 in this regard. This should ideally reflect a lesser reliance on the DOD and focus on cost-saving measures and revenue enhancing activities.
* Against the background of the annual turn-over of the CCB, the Committee undertook to engage the A-G on the relative high costs of the annual auditing process and the costs for an audit review.
* The Committee expressed its concern around the frozen posts although it took note that this was a cost-saving measure. It recommends that if the financial position of the CCB improves, that these posts should be filled given the centrality of the Marketing and Events manager to generate revenue for the CCB.
* Regarding the decreased utilisation of interns, and the focus that government departments and entities should have on youth employment, the Committee recommends that once the revenue has increased, the utilisation of interns be enhanced.
* The CCB agreed that they can play an enhanced role in nation-building and the Committee therefore urged the CCB to improve its efforts in this regard.

PART B: ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)

1. **INTRODUCTION**

1. **Description of core functions of Armscor**

The Armaments Corporation of South Africa SOC Ltd (Armscor) was established in terms of the Armaments Production and Development Act (No. 57 of 1968) to satisfy the requirements of the South African National Defence Force (SANDF) in respect of Defence Matériel. Armscor differs from other entities in the Defence Portfolio as it is largely self-funded and profit-driven. Parliamentary oversight of Armscor aims to strike the balance between corporate efficiency/sustainability and effective service delivery to the SANDF.

2.Overview of the key relevant policy focus areas

1. **State of the Nation Addresses**

President Ramaphosa delivered the 2018 State of the Nations Address (SONA) on 16 February 2018 to a Joint Sitting of Parliament. These following excerpts are deemed relevant to Armscor as referred to by the President:

**Ethical behaviour and ethical leadership:**The President stated that we should be guided by Mandela’s example and use the year to reinforce our commitment to ethical behaviour and ethical leadership, to turn the tide of corruption in our public institutions. *Armscor has on occasion indicated its seriousness with fighting fraud and corruption, and this was given further urgency by the President.*

**Job creation and youth unemployment**: Reference was made to the fact that at the centre of our national agenda in 2018 is the creation of jobs, especially for the young people in our country. Our most grave and most pressing challenge is youth unemployment. *Besides allocating a portion of its budget to be spent on the youth and youth related activities, Armscor also actively participates in the Youth Employment Service (Y.E.S) of the Department of Trade and Industry*.

**Transformation: Black professionals and disabled persons**: The President alluded to the government improving its capacity to support black professionals, and to deal decisively with companies that resist transformation. Government is also working to expand economic opportunities for people with disabilities in our country. *Transformation in terms of race, gender and disabilities still occupies a central role in the management of Human Resources and the support to black professionals and especially disabled persons, will assist to transform the South African workplace. Armscor annually reports on its performance on these issues.*

**Procurement and SMME’s:**Government will honour its undertaking to set aside at least 30% of public procurement to small and medium enterprises, to co- operatives and to townships and rural enterprises. We will also continue to invest in small business incubation, because it is through the incubation process that we have been able to see small and medium enterprises mushrooming throughout the country. *Armscor strives to pay invoices of especially SMME’s within the 30-days stipulation.*

2.2The National Development Plan

The NDP and its related policies provide a national framework that will inform the contribution by national departments and public entities. Aspects of the NDP relevant to Armscor include the following:

* Sharpening South Africa’s innovative edge by contributing to global scientific and technological advancement.
* Enhancing investment in Research and Development and by better utilising existing resources.
* Facilitating innovation and enhanced cooperation between public service and technology institutions and the private sector in areas of potential dual use.
* Committing to procurement approaches that stimulate domestic industry and job creation.
* Procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female led-enterprises, the youth and military veterans.

2.3The Medium Term Strategic Framework (2014 - 2019)

The MTSF Outcomes to which Armscor will contribute are as follows:

**MTSF Outcomes 3:**“All people in South Africa are and feel safe.” Armscor contributes to the following facets of Outcome 3:

* Border safeguarding - Armscor supports border safeguarding through the provision of technology and equipment to the DOD in terms of land, air and maritime border safeguarding.
* Secure cyber space – Armscor provides support towards capacitating a Cyber-Security Institution by the establishment of the Cyber Command Centre Headquarters scheduled for 2018/19.
* Reduction of corruption in the public and private sectors – Armscor will prevent corruption where prevalent and in the execution of Armscor’s mandate.

**MTSF Outcome 11:**“Creating a better South Africa and contributing to a better and safer Africa in a better World.” Armscor contributes to Outcome 11 by addressing the sub-outcome related to ‘Political cohesion in Southern Africa to ensure a peaceful, secure and stable region.’ Armscor supports the DOD in this regard by supplying the necessary security equipment.

In addition to supporting MTSF Outcomes 3 and 11, Armscor also supports four additional MTSF Outcomes indirectly, including:

* MTSF Outcome 2: A long and healthy life for all South Africans.
* MTSF Outcome 4: Decent employment through inclusive economic growth.
* MTSF Outcome 5: A skilled and capable workforce to support an inclusive growth path.
* MTSF Outcome 12: An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship.

2.4Ministerial and Armscor Priorities

The Minister of Defence and Military Veterans identified several priorities for 2017/18 that emanated from the 2015 defence Review. These include (1) Defence Strategic Direction, (2) Strategic Resourcing Direction, (3) Capability sustainment Direction, (4) Organisational Renewal Direction, (5) Human Resources Renewal Direction, and (6) Ordered Defence Commitments Direction. In relation to these, Armscor developed several strategic priorities, including (1) Customer Satisfaction through service delivery standards, (2) Accountability in execution of the mandate, (3) Financial responsibility, and (4) a focus on the utilisation of Human Resources.

3.Budget Report FY2017/18 and BRRR recommendations

1. **Committee 2017/18 Budget Report of Armscor**

The PCODMV identified the following areas for re-prioritisation which will be subject to monitoring by the Committee throughout the 2017/18 financial year:

* The Committee recommends that the Minister of Defence and other necessary role-players accelerate the transfer of the Dockyard.
* The Committee calls on Armscor and other relevant role-players to enhance efforts to expand into the African market as a means of market diversification and revenue generation.
* The Committee urges Armscor to accelerate efforts to commercialise Intellectual Property as a means of revenue generation.
* The Committee commends Armscor for its efforts to extend the lifeline of its revenue surplus and encourages Armscor to make efforts to further extend this surplus where possible.
* The Committee recommends that the Minister of Defence, the Chief of the SANDF and Armscor accelerate engagements regarding the Armscor’s potential for becoming the sole disposal agent for the Department and to ensure that measures are in place to ensure all disposals are done ethically and in the best interest of the Department.

3.22017/18 BRRR recommendations

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4.Overview of the 2018/19 Performance of Armscor

1. **A brief overview of Armscor performance for the FY2018/19**

Armscor succeeded in maintaining an unqualified audit from the AG. This is representative of its elevated levels of corporate and financial discipline. The Armscor Group also managed to attain a surplus of R235.311 million in 2018/19, compared to a minor loss in the 2018/19 financial year. However, the reduction in revenue gained from the sale of goods and services is a concern and Armscor remains largely dependent on its state allocation. Given the financial constraints of the DOD which results in less contracting for Armscor, it is therefore essential that Armscor continue to exploit commercial opportunities where possible. In this regard, the work of Alkantpan, the Hazmat Facility, Gerotek as well as the exploitation of Intellectual Property are essential. Improvement at the Dockyard should also be addressed as a matter of urgency as it impacts both on the SA Navy’s capabilities and internal developments of Armscor

4.2Financial overview of Armscor for FY2018/19

The total comprehensive income of the Group increased from a loss of R10.086 million in 2017/18 to reflect a surplus of R235.311 million in 2018/19. Revenue generated increased from R1.661 billion in 2017/18 to R1.754 billion in 2018/19. However, this increase should be seen in context as it comprises an increased state allocation. The state allocation has increased significantly in recent years from R860 million in 2016/17 and R1.047 billion in 2017/18 to R1.105 billion in 2018/19. During the period under review, Armscor did manage to increase rental income from R25.989 million in 2017/18 to R143.574 million in 2018/19. Furthermore, donations to Armscor increased from R136 000 in 2017/18 to R441 000 in 2018/19. Of concern, however, is that sales of goods and services decreased from R473.944 million in 2017/18 to R381.112 million in 2018/19.

The following additional financial matters should also be noted:

* Employee-related costs decreased from R1.145 billion in 2017/18 to R1.125 billion in 2018/19. This decrease is largely due to a reduction is “employee costs included in other expenses.”
* Salaries and wages increased from R776.664 million in 2017/18 to R826.099 million in 2018/19. This represents a 6.37% increase.
* Short-term employee-related costs increased from R16.893 million in 2017/18 to R20.397 million in 2018/19. This represents a 20.74% increase in short-term employee payments.
* Compensation for executive directors increased from R7.125 million in 2017/18 to R10.984 million in 2018/19. This increase could be ascribed to the need for an acting CEO during the latter part of the 2018/19 financial year. Mr K. Wakeford resigned as CEO on 30 April 2019 and Adv S. Mbada was appointed as Interim CEO on 15 February 2019.
* Compensation of non-executive Directors increased from R4.652 million in 2017/18 to R6.209 million in 2018/19. This represents a 33.47% increase in remuneration.

4.3Findings of the Auditor-General of South Africa

Armscor received an **unqualified audit with no qualifications**from the Auditor General (AG) of South Africa for 2018/19. The AG did point to two emphasis of matters:

* Corresponding figures for 31 March 2018 were restated as a result of errors in the financial statements of the entity at, and for the year ended, 31 March 2019 as well as due to a change in the accounting framework.
* The supplementary information set out on pages 129 to 130 (of the Annual Report) as well as the total value of acquisition activities set out on page 203 (of the Annual Report) does not form part of the financial statements and is presented as additional information. This information was not audited and, accordingly, no opinion was expressed on it.

4.4Performance Overview: Under achievements and challenges

Armscor performed relatively well when performance against set targets are measured. *A total of 43 Key Performance Indicators (goals) were set for 2018/19. Armscor managed to achieve 32 of these, which is a success rate of 75.42 per cent. This performance is in line with the 73% performance of 2017/18.*

Three specific targets that were achieved by Armscor should be noted by Members as important milestones amid difficult financial operating circumstances:

* The target for the procurement time of acquisitions under the Strategic Defence Account is 270 days, yet Armscor managed to procure such items in an average of 133.88 days.
* Armscor aimed to increase commercial income from Research and Development facilities by 5%, yet they managed to exceed this target to increase commercial income by 15%.
* Armscor aimed to break even for the financial yet, but managed to achieve a surplus of R235.3 million.

The KPIs not achieved or only partially achieved include the following:

Selected Key Performance Indicators not achieved/partially achieved in 2018/19

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Objective** | **KPI** | **Goal** | **Achievement** | **Comments** |
| **Procurement** | 90       days      for standard procurement | 90 days | 111 days | This reflects a regression from the achievement of 93 days in 2016/17 and 101 in 2017/18 |
| **Procurement** | 60 days for commercial off- the-shelf items | 60 days | 73 | Although an improvement on the previous year, this is the second consecutive year that the target is not achieved |
| **Dockyard** | % Compliance to project finance | 90% | 87.3% | No comment |
| **Revenue Generation** | Group Revenue | R1.384billion | R1.377billion | No comment |
| **Revenue Generation** | Revenue generated              from the              Business Enablement Business Unit | R110.2million | R23 million | Revenue affected by the cancellation of the building project |
| **Efficient & Effective Delivery** | Development      of SCM | 31         March 2019 | Not achieved | Contract cancelled due to non-performance of the service provider |
| **Efficient & Effective Delivery** | Implement security architecture | 31         March 2019 | 31        March 2019 | Project     delayed     due    to stoppage of ERP Project |
| **Stakeholder management** | Stakeholder satisfaction | 2%improvement | 2.67%decline | No comment |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Objective** | **KPI** | **Goal** | **Achievement** | **Comments** |
| **Employee satisfaction** | Employee satisfaction | 1.5%improvement | 0.01%improvement | Previous achievement in this regard was a 0.74% decline in 2017/18. |

1. **Acquisitions and related activities**

Acquisitions for the SANDF and other government departments reflect Armscor’s core function. The acquisition responsibility of Armscor can be broadly classified into two main categories being, capital acquisition (funded by the Special Defence Account) and system support and procurement (funded by the General Defence Account). Capital acquisition entails projects that cater for technology development, directed systems development and the subsequent production of new defence matériel, while system support and procurement involves operating procurement, maintenance and support of existing equipment and systems. In the 2018/19 financial year, Armscor managed and executed contracts worth R11.76 billion, including the following:

* Maintenance and support contracts worth R4.322 billion (compared to R4.526 billion in 2017/18).
* Capital acquisition contracts managed worth R7.44 billion (compared to R7.744 billion in 2017/18).

5.1The impact of Denel on Armscor in 2018/19

In 2018/19, Armscor showed a significant decline in performance in terms of cash flow. This is largely attributed to non-performance by Denel. The 2018/19 Annual Report states the following:

“*One of the main contributors to the reduced cash flow during the past financial year was Denel’s general inability to deliver on contractual commitments. Due to amongst others, Denel’s liquidity problems and it not being able to pay suppliers; as a result, a large component of their supplier base have stopped delivering subsystems to them. This contributed greatly to Denel’s significant underperformance on all programmes and thus further contributing to Armscor’s payments against contracts being significantly less than normal. During September 2018, an amount of approximately R2 billion of the contracted value on the New Generation Infantry Combat Vehicle*

*project was rephrased to following years as a result of the inability of Denel to deliver on this programme. This consequently reduced the total contracted value for the 2018/19 financial year. The total cash flow achieved during the reporting period, amounted to R5,601 billion, compared to R6,543 billion during the 2017/18 financial year. The generally poor performance by industry, and that of Denel specifically, has resulted in the cash flow performance for the 2018/19 financial year being the lowest in 10 years.”*

5.2Acquisition and maintenance programmes

Armscor managed acquisition and maintenance programmes for several defence systems. The majority of these acquisition programmes are multi-year acquisitions and projects will span several years. The ongoing monitoring of these projects to ensure on-time delivery and value-for-money is essential, of which the following can be noted:

**Maritime systems.***A Hydrographic vessel*is being purchased for the SA Navy under Project Hotel. Construction was set to start in 2018 and this was achieved through a steel-cutting ceremony hosted on 30 November 2018. Durban-based Southern African Shipyards (SAS) is the main contractor for Project Hotel to supply the SA Navy with a new hydrographic vessel and ancillary equipment. The supply of the hydrographic vessel as well as additional motor boats seems to be progressing according to schedule as per the 2018/19 Annual Report.

Furthermore, an acquisition process for three new *Inshore Patrol Vessels*(IPVs) is in progress under Project Biro. Previous Annual Reports noted that, by December 2017, the contract was awarded for the construction of the three IPVs. News reports indicate that the contract was awarded to Cape-Town Based Damen Shipyards. A similar tender for three Offshore Patrol Vessels has been put on hold. The 2018/19 Annual Report notes that the IPV contract is progressing according to schedule and that the first vessel is set to launch by the end of 2020. Finally, midlife upgrades on both the SA Navy’s frigates and submarines are delayed due to a lack of funds. This was raised as a major concern by the Chief of the SA Navy during a recent briefing to the JSCD in September 2019. The facilitation of the upgrades by Armscor is thus delayed and out of Armscor’s control.

**Airborne systems.**The Annual Report notes that the A-Darter Air-to-Air missile has been is nearing completion and final testing was scheduled for June 2019. The industrialisation and large- scale production of the A-Darter has been significantly delayed by difficulties in Denel. However, progress has since been made. News reports from October 2019 states that “a type certificate has been issued for the Denel Dynamics A-Darter fifth generation air-to-air missile, with qualification and certification concluding development of the weapon, which will enter service on South African and Brazilian Air Force Gripen fighters.” The A-Darter missile is funded jointly by the South African Air Force and the Brazilian Air Force.

**Landward acquisitions.**The most significant acquisition in the landward defence environment is Project Hoefyster which relates to the purchasing of new Infantry Fighting Vehicles for the SA Army to replace the ageing Ratel fleet which has been in service since 1976. An order for 244 new vehicles was placed with various variants to be delivered to the SANDF. The majority of the new fleet will be constructed in South Africa and a locally designed and manufactured turret is used. While the first batch of 21 vehicles have been delivered from Finland, local manufacturing by Denel has seen significant delays. The 2018/19 Armscor Annual Report notes that the project was already 43 months behind schedule by the end of the 2018/19 financial year. Furthermore, “during December 2018, Denel formally notified Armscor and the DOD that it is unable to deliver against the current contract baseline in terms of technical specifications, delivery schedule and price as contracted. The way forward with the programme is being addressed within Armscor and the DOD, and possible alternative approaches with associated implications to mitigate the financial and capability risk to the DOD is being investigated.”

In addition to Project Hoefyster, Phase 1 of a new Ground Based Air Defence System (GBADS) for the SA Army was delivered to the Air Defence Artillery Formation. This focused on refurbishing the radar-guided system 35mm guns of the Air Defence Artillery Formation. A second phase of the GBADS is currently under way and focuses on the upgrade of the 35mm anti-aircraft guns’ Fire Control system. The project is, however, not fully funded. Despite not being fully funded, it is anticipated that the product baseline, which will conclude the development work of this phase will be achieved by March 2021.

5.3Defence Industrial Participation (DIP)

Defence Industrial Participation (DIP) relates to the obligation of a foreign supplier to reciprocate defence related business in South Africa as a result of a Defence acquisition. The DIP Policy was revised in October 2015. In 2018/19, Armscor managed 15 such agreements, which is higher than the 14 managed in 2017/18. Only one of the current DIP agreements are not related to the military (related to a SAPS pistol acquisition project). The value of DIP credits being managed remained similar to the previous financial year and comes to a total of R22.589 million compared to R22.571 billion in 2017/18. The breakdown of this is as follows:

* DIP agreements related to the Strategic Defence Packages (1):               R15.111 billion
* DIP agreements related to ongoing defence projects (13):                       R7.294 billion
* DIP agreements related to the SAPS (1):                                                R184 million

One DIP agreement related to the 1999 Strategic Defence Procurement remains under the management of Armscor. This refers to an agreement with MBDA (a European based missile developer and manufacturer). The outstanding obligation in this regard equates to R933 million. The 2015/16 Annual Report indicated that the DIP agreement will be extended to 2019 to allow for the identification of new projects to offset the DIP. The 2018/19 Annual Report notes the same extension, thus raising a question as to whether any progress was made in this regard.

5.4Defence Materiel Disposal

Armscor also manages the disposal of defence equipment such as vehicles, vessels, ammunition and other equipment for the DOD. During 2018/19, Armscor concluded orders to the value of R8.5 million which is slightly lower than the R8.7 million worth of contracts placed in 2017/18. The African market was the main source of revenue. The Annual Report further notes that “The slight decrease in sales was as a result of limited stock received for disposal.

However, with the expedited disposal initiative in place, more sales are expected to be realised in the near future. The expedited disposal initiative is aimed at identifying, organising and disposing defence matériel in an expedited manner and within the ambit of corporate governance.”

6.Research and Development

The Annual Report indicates that Armscor managed to earn R489.9 million from research and development projects, which is in line with that of 2017/18. Research work contracted from the DOD constituted R337.6 million while commercial contracts valued R152.3 million. This should be seen in the broader context of DOD research and technology funding. In total, the DOD provides funding for these purposes to the value of R912 million, of which 14% is allocated to Armscor, 30% to the Centre for Scientific and Industrial Research (CSIR), 47% to the South African Defence industries and 9% to Universities. The bulk of such services took place at Research and Development Facilities such as the *Gerotek and Alkantpan*test facilities as well as *Hazmat protective systems.*

*Alkantpan*is a munitions test range in the Northern Cape Province and attracts a number of international clients. Several international and domestic clients perform tests at the facility. Major milestones reached in 2018/19 included the upgrading of tracking radars at the facility and the signing of a Memorandum of Understanding with the various departments to ensure the mutually beneficial operations of the Alkantpan facility and the Square Kilometre Array (SKA) to ensure the viability of both facilities in the same geographic area. Similar to 2017/18, the latest Annual Report does not indicate the exact income from sales at Alkantpan. In 2016/17, R86.2 million was generated by Alkantpan. The 2018/19 performance of Alkantpan was negatively affected by an incident at Rheinmettal Denel Munitions in Cape Town.

*Hazmat*produces respiratory equipment for military and commercial purposes. The subsidiary managed to achieve a positive net income through the implementation of a conscious cost saving effort. 2018/19 is therefore the second consecutive year in which the facility did not manage to achieve its budgeted annual sales target. The income generated from Hazmat’s activities is not reflected in the 2018/19 Annual Report. In 2016/17, R14.6 million in sales was derived from commercial initiatives.

Other defence science technology institutes that receive the bulk of their funding from the DOD include:

* *Armour Development*: Conducting of defensive and reactive armour development. Funded by the Research and Development Board. In 2017/18, all tests were completed and a new

three-year quotation submitted for the development of armour Protection Technology. In 2018/19, Armscor commenced with the first year of a new three-year project to upgrade armour. Due to past projects, Armscor notes that current revenue generation in the Armour Development domain is exceeding expectation and is expected to grow further.

* *Protechnik laboratories*: Focus on chemical and biological defence. Two key highlights are noted for 2018/19. Firstly, Protechnik is in the process of engaging services of the Organisation for the Prohibition of Chemical Weapons (OPCW) to further strengthen its capabilities. A MOU between South Africa and the Netherlands has been signed in this regard. Second, Protechnik recently undertook a project aimed at the expansion of the existing infrastructure to include a Biosafety Level Three (BSL-3) laboratory.
* *Ergonomics technologies*: Focus on integrating ergonomics into the SANDF. The 2018/19 Annual Report notes that Ergonomics technologies are involved in various research projects. This includes, among others, research on the body composition of SANDF members, dual-energy absorptiometry x-rays, cognitive ergonomics research, a soldier hydration programme, etc.
* *Institute for Maritime Technology*: Provision of techno-military expertise to support naval decision-making. The IMT is involved in various programmes, including testing of torpedo launchers, an underwater security survey, electro-optics remote maritime surveillance, underwater pinger locators, etc. One of the major projects that the Institute is working on is the Ultrasonic Broken Rail Detector, which has significant commercial potential. It is indicated that a commercial product is to be available by mid-2019/20. Previous annual reports indicated that this product will be available by the end of 2018/19.
* *Defence decision support institute*: Provision of decision support to the DOD.
* *Flamengro*: Computer aided engineering centre of excellence.

7.Armscor Dockyard

The Armscor Dockyard serves as the primary maintenance supplier to the SA Navy. It has come under increasing strain in recent years due to financial concerns and this has impacted on the Dockyard’s ability to provide all required services to the SA Navy. As such, a Renewal Strategy was developed to eliminate the institution’s financial deficit and increase efficiency. The Renewal Strategy will be implemented over three years, with the first phase focusing on eliminating the

financial deficit. In 2018/19, the synchrolift platform was prioritised by the Dockyard as a key facility in need of repair. The Annual Report notes that good progress has been made in the repair of this facility.

In 2018/19, repair and maintenance were done on a number of SA Navy vessels. Furthermore, the Annual Report provides a commercial update stating that there is significant commercial interest in the Dockyard capabilities and that commercial services may be supplied in future (but not at the expense of services to the SA Navy).

8.Human Capital Development

The 2018/19 Annual Report indicates that Armscor, including the Armscor Dockyard, has a staff complement of 1 467, which is in line with the 2017/18 figure of 1 463. Armscor developed an Employment Equity Plan, partially focused on increasing the number of black women and persons with disabilities in the entity. The plan will be in place until March 2020. Currently, in terms of Employment Equity, 80.23% of the Armscor Human Resources contingent are black. This is a further increase from 2017/18 when the percentage stood 78.6%. The 2018/19 Annual Report further indicates that 36.95%of employees are female, which also represents an increase from the 35.27% in the preceding year.

Armscor should also be lauded for identifying capability retention and succession planning as key focus areas. In 2018/19, 71 key position were identified as well as 82 potential successors. This translates to an 83.69 per cent compliance with the development plan as contracted with successors. The 71 key positions identified also represents an increase from 46 key position identified in 2017/18. A positive initiative from Armscor that has been in place for several years is that it continues to provide skills development through a number of programmes, the following of which are noteworthy:

* International Training Programmes. Two employees are registered for Masters in Science: Military Aerospace and Airworthiness (Four employees noted in previous Annual Report). Two employees are studying for the Advanced Masters in Unmanned Aircraft Systems Management programme.
* Graduate Development Programme. For 2018/19, 45 candidates participated in this programme.
* Bursaries. 35 Bursaries were made available to undergraduate students at various universities This is in line with the 36 bursaries awarded in the preceding year.
* Defence Engineering and Science University Programme. In 2018/19, 87 undergraduates were funded for the 2018 academic year.
* Dockyard training. The Dockyard provided training to 15 apprentices. This is a major reduction from the 92 that was noted in the 2017/18 Annual Report.

9.COMMITTEE OBSERVATIONS: ARMSCOR

The following observations were made regarding Armscor during the Committee’s interaction with the entity on 16 October 2019:

* The Committee noted the impact of the declining defence budget on Armscor as this result in limited acquisition projects for the DOD, the primary client of Armscor.
* The Committee noted the potential impact of the limited acquisition projects on the primary function of Armscor as acquisition agent. However, the Committee was informed that this will remain the primary mandate of Armscor and that other functions, such as Research and Development, will only relate to sovereign capability requirements.
* The Committee applauds Armscor in its efforts to diversify its business model and to raise revenue from commercial projects. Although the organisation will remain dependent on a state allocation to fulfil its primary functions, its efforts at financial stability is well noted.
* The Committee raised a specific concern regarding the progress of some projects managed by Armscor, specifically around Project Hoefyster which aims to replace the SA Army Infantry Fighting Vehicle fleet.
* Significant concerns around the performance of Denel was noted by the Committee as well as the impact this has on delivery of the required defence equipment to the SANDF and Armscor.
* Armscor informed the Committee of various programmes planned or envisaged by the DOD, but that these acquisition plans have been delayed or postponed due to a lack of funding. Crucially, the Committee pointed to the need for the SA Air Force to acquire a strategic airlift capability and for the SA Navy to replenish its operational fleet.
* The Committee expressed concern about delays in the maintenance and repairs of SA Navy vessels at the Armscor Dockyard, although budgetary constraints are the main factor impacting on the refit of vessels.
* The Committee welcomed the proposal by the Dockyard to engage in commercial activities as a means of further revenue generation, but noted that this should not be at the expense of the SA Navy’s maintenance and repair schedule.
* Committee members expressed concern with the quality and quantity of footwear as raised by soldiers during its recent oversight visits. The Committee urged more direct involvement in quality assurance by Armscor’s Ergonomics Technologies (ERGOTECH).
* The Committee expressed the need to be better informed of ongoing acquisition projects managed by Armscor as well as timelines and budgets set for these projects, and in particular if there are major changes to these projects.
* The Committee raised concerns that senior management did not respond with required urgency to the Auditor-General’s recommendations.
* The Committee urged that a discussion should take place between Armscor and the DOD to ensure the correct reflection of tangible assets for auditing purposes.

10.COMMITTEE RECOMMENDATIONS

The PCODMV makes the following recommendations with regards to Armscor:

* Given current financial constraints in the defence allocation, the Committee urges Armscor to continue to seek commercial opportunities as a means of raising revenue while continuing to provide quality service to its primary client, the DOD.
* The Committee recommends an urgent engagement between Armscor, Denel and the DOD on the status and continued viability of Project Hoefyster. A written report on the status and viability of the project should be presented to the Committee no later than 1 February 2020.
* Denel should submit a report to the Committee on all other outstanding projects managed by Denel related to the DOD. Timelines, priority levels and the current status of these

projects should be provided in the report. The report should be submitted to the Committee no later than 30 November 2019.

* Armscor should provide the PCODMV with a written report on the status of the Armscor Dockyard before 30 November 2019. The report should include the current capacity of the Dockyard, capacity constraints, work completed for the SA Navy, commercial work completed and expansions plans. This document will form the basis for an oversight visit by the PCODMV.
* The Committee recommends that footwear and uniform purchases for the DOD either be facilitated through Armscor’s Ergonomics division or that assurances should be provided of the quality of footwear procured through the SABS, Armscor’s Ergonomics division or a related quality control agency. The DOD and Armscor should provide the Committee with a joint report on quality assurance and the future involvement of the Ergonomics division. The report is to be submitted during the First Quarter of 2020.
* The Committee urges Armscor’s senior management to respond with urgency to recommendations by the A-G. Following its mid-year engagements with the A-G, Armscor should submit a report to the Committee on issues identified by the A-G and action plans to address these.
* The Committee urges Armscor, the DOD and the A-G to finalise a plan to correctly capture tangible assets in order to avoid future misstatements and subsequent adverse findings by the A-G.

PART C: THE MILITARY OMBUD

1. **INTRODUCTION**

1. **Description of core functions of the entity**

The Military Ombud was established in terms of the Military Ombud Act, No. 4 of 2012, to “investigate and ensure that complaints are resolved in a fair, economical and expeditious manner.” Section 8 (1) of the Act states that “the Ombud and staff members must serve independently and impartially and must perform their functions in good faith and without fear, favour, bias or prejudice, subject to the Constitution and the law.”

1.2Mandate of Committee

Parliamentary oversight of the Military Ombud aims to ensure that the Ombud finalises complaints within reasonable time as to ensure the relevance of the Ombud’s Office and general satisfactory conflict resolution within the South African National Defence Force’s (SANDF) serving and former members.

1.3The 2018 Annual Performance Plan (APP)

The Office of the Military Ombud (MO) submitted its third Annual Performance Plan (APP) in March 2018 to Parliament. As with the first two APP’s, it was developed in support of the National Development Plan, the Medium Term Strategic Framework 2014 – 2019, the New Growth Path and the 2015 State of the Nation Address. The Minister states in her Foreword that the Military Ombud continues to be an official grievance platform to investigate grievances for current and former members of the SANDF. She concludes that she is pleased with the progress made by the Office in addressing complaints and how these have been handled. The Military Ombud in turn, refers to the need to balance three key areas: the need for impartiality, independence, and commitment to achieving the objectives of the Office. He also reflected on the austerity measures and human resource constraints which will to some degree impact negatively on their outputs and outcomes and that has the potential to erode public trust in the Office.

1.4Independence of the Office of the Military Ombud

The Office has over time indicated to the Committee that one of its main concerns is the independence of the Military Ombud, both institutionally and operationally. The need to reposition the Office to achieve organisational independence from the SANDF is essential as it has to take decisions on complaints independently and fairly. The APP states that the Office is consulting with the Department of Public Service and Administration (DPSA), National Treasury and the DOD on alternative avenues to ensure their independence as per the requirement in the Military Ombud Act, Act 4 of 2012. Reference is also made to the fact that in terms of Section 10(1) of the Military Ombud Act, *“Expenditure in connection with the administration of the Office must be funded from monies appropriated by Parliament for that purpose, as part of the budget vote of the Department.”*

Feedback on recommendations

Directly linked to the independence of the Office is the issue of feedback on recommendations. Although the Office put it mildly that they do not receive feedback on their recommendations, this is a crucial issue that goes to the heart of the Office’s integrity, trust and respect that soldiers have in the institution. The absence of a feedback mechanism is concerning, and the Office should indicate to the Committee how it can assist to ensure that a proper feedback mechanism is established as soon as possible.

2.Selected Strategic Focus Areas of the Military Ombud

Aligned to the priorities of the Minister of Defence and Military Veterans, the Military Ombud highlighted a number of focus areas for FY 2018/19 to ensure increased performance.

|  |
| --- |
| **MILITARY OMBUD FOCUS AREAS** |
| **Focus area** | **Goal** |
| **Management** | A strong management and unified team focusing on professionalism. |
| **Corporate governance** | Various focus areas identified:* Strengthening ethical conduct and promoting integrity
* Effective enterprise risk management
 |

|  |
| --- |
| **MILITARY OMBUD FOCUS AREAS** |
|   | * Strengthen IT Policies
* Develop Compliance Committees to oversee various areas of compliance
* The lack of Internal Audit to be addressed during restructuring
* Stakeholder relationship management
* Fraud and corruption prevention
* Effective financial management within a limited budget
* Adherence to target dates
* Operations (timely resolution of complaints)
 |
| **Service delivery** | Adherence to the Batho Pele principles. |
| **Independence** | The provision of high quality legal advice and opinions must be intensifiedto ensure sound findings and recommendations by the Office. |
| **Implementing****Operational Recommendations** | This remains a challenge and could be addressed by seeking an amendment to the current mandate. |
| **Training** | Training as a means of capacity building should be increasingly explored. |

3.Performance review of the Military Ombud for FY 2018/19

The Office of the Military Ombud set itself 11 performance targets for 2018/19. Of these, only three were achieved, reflecting a 27.27% performance against set objectives. The targets achieved include adherence to submission dates for accountability documents, the provision of Legal Services to the Military Ombud and the stakeholder opinion of the Ombud. A *crucial target not achieved*relates to the percentage of written complaints finalised that only reflects a 47% achievement. Key targets note achieved are reflected in the table below.

Key Performance Indicators not achieved in 2018/19

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Objective** | **KPI** | **Target** | **Achievement** | **Comments** |
| **Strategic direction** | % Compliance with the Policy on Policies | 80% | 69.3% | The long process to promulgate policies noted as reasons                             forunderperformance |
| **Strategic direction** | % Compliance to organisational requirements | 80% | 57.5% | Structural review currently under way by Government Technical Advisory Centre |
| **Corporate Operations** | %              Written Complaints finalised | 75% | 47% | Delays in timely responses by the SANDF. Lack of standardised investigative approaches |
| **Regulatory Framework** | % Compliance with Human Resources Plan | 95% | 90.2% | Underperformance ascribed to attrition |
| **Regulatory Framework** | % Compliance with allocated budget | 95% | 83.8% | Vacant posts and the delay in the procurement process |
| **Regulatory Framework** | % Compliance with logistics budget | 95% | 85.3% | No comment |
| **Regulatory Framework** | %      Compliance with ICT Plan | 95% | 83.8% | Servers not delivered by service provider |
| **Regulatory Framework** | % Compliance to security policy | 75% | 67.5% | Various  reasons,  includingbypassing       of      physical security   barriers   such   as |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Objective** | **KPI** | **Target** | **Achievement** | **Comments** |
|   |   |   |   | turnstiles         and        faulty biometric readers. |

1. **REVIEWING OPERATIONS**

1. **Complaints**

In the last seven years, the Office of the Military Ombud received a total of 2 444 complaints that were registered with the Office. By the start of 2018/19, 135 cases were carried over from the previous year. An additional 390 cases were registered with the Office throughout 2018/19, thus bringing the number of active total cases during the year to 525. Of these, 246 cases were finalised, leaving 279 cases pending by the end of 2018/19. The number of cases finalised in 2018/19 (246) is significantly lower than the number finalised in 2017/18 (664). The majority of cases were recorded in the Gauteng Province, followed by the Western Cape and Limpopo. Only 12 cases were reported by Members of the public.

Of the 246 cases finalised in 2018/19, the following were the major reasons for finalisation:

* Complaint dismissed (63)
* Complaint upheld (26)
* Did not follow grievance procedure (46)
* Not a condition of service (39)
* Matter referred to appropriate public institution (45)

While the Ombud’s Annual Report notes that 26 cases were upheld, the Report also notes only 14 recommendations implemented/non/implemented by the DOD. Of the 14 recommendations, the DOD implemented seven, while two were not implemented and two are pending implementation. Three reports were referred back to the Ombud by the Minister of Defence. The key reasons why complaints were brought before the Military Ombud in 2018/19 include the following:

* Remuneration (90)
* Utilisation & Placement (77)
* Service termination (74)
* Service benefits & working environment (66)
* Promotions & demotions (40)
* Grievance/Disciplinary procedures (15)

4.2Outreach programmes

The Military Ombud also held at least 47 outreach programmes throughout the year. These included outreaches in eight provinces, as follows:

* 1 x Gauteng
* 4 x Eastern Cape
* 15 x Limpopo
* 12 x Western Cape
* 7 x North West
* 3 x Kwa-Zulu Natal
* 4 x Mpumalanga
* 1 x Northern Cape

Several international outreaches (international relations) were also established throughout the year. Several visits were conducted to, among others:

* The African Ombudsman and Mediators Association (AOMA)
* The Joint UN-AU Framework (The aim is to ensure enhance peace and security in Africa through the AU Vision and Agenda 2036).
* The Centre for the Democratic Control of the Armed Forces (DCAF) in Geneva, Switzerland.
* Visit to SADC (Namibia, Lesotho, Mozambique)

5.HUMAN RESOURCES

Funding concerns is the major factor that impacts on the Military Ombud’s Human Resources Management. The Annual Report notes that the Office requires 89 personnel members to function. However, currently funding only allows for a staff complement of 60*. In 2018/19, the number of personnel varied between 60 and 63*. The 2018/19 expenditure for personnel was R37.4 million. A number of skills development opportunities were provided, specifically to the Corporate Operations environment where 18 staff members attended short courses.

6.EXPENDITURE REPORT

In 2018/19, the Military Ombud’s total expenditure came to R49.135 million. This is less than the original vote of R56.458 million allocated to the Ombud’s office. The bulk of expenditure relates to Compensation of Employees (R37.445 million) while Goods and Services totalled R10.444 million during the period under review. In terms of Goods and Services as well as other expenses, the following changes to original planning throughout the year should be noted (These do not constitute over- or under-spending, merely a change in funds utilisation compared to the original budget vote):

* R596 000 was spent on advertising against the planned R366 000.
* R1.121 million was spent on Communication compared to the planned R537 000.
* R1.068 million was spent on Business and Advisory Services compared to the planned R382 000.
* R97 000 was spent on Fleet Services against a planned expenditure of R382 000.
* R727 000 was spent on Minor Assets compared to the planned R141 000.
* For Operating Leases, expenditure of R5.011 million was planned, yet total expenditure only came to R11 000.
* R827 000 was spent on Venues and Facilities compared to the planned R230 000.
* R809 000 was spent on Machinery and Equipment compared to the planned R354 000.

7.COMMITTEE KEY FINDINGS: THE MILITARY OMBUD

During its engagement with the Military Ombud on 16 October 2019, the PCODMV made the following observations:

* The Committee raised concern regarding the non-implementation of recommendations by the Military Ombud. Members further noted that the Ombud’s recommendations should not be impacted by internal workings of the DOD.
* Members of the Committee expressed concern regarding the turnaround time and prioritisation of cases.
* The Committee noted discrepancies between the caseloads emanating from the various provinces.
* The Committee welcomed the implementation a new case management system that will ensure that cases will not remain in the system for extended periods.
* Members raised questions regarding the criteria used to determine where provincial outreach programmes should take place and urged consistency to ensure a fair distribution.
* The Committee raised questions regarding the funding of the Military Ombud and how this affects independence. Members noted this as a discussion-point to be carried forward for further debate.
* Members expressed concern that the Military Ombud is not, according to the current Act, able to initiate its own investigations.

8.COMMITTEE RECOMMENDATIONS

The PCODMV makes the following recommendations with regards to the Military Ombud:

* The Committee observed several concerns raised by the Military Ombud related to its independence. The Committee therefore recommends that the Military Ombud should analyse the current Act and report to the Committee the sections that it finds problematic as well as potential amendments. This should include, *inter alia,*reference to concerns around non-implementation of findings by the Ombud, the inability of the Ombud to initiate its own investigations, funding concerns and aspects of organisational

independence. This report should be provided to the Committee in the First Quarter of 2020.

* The Committee recommends that, in future Annual Reports and Annual Performance Plans, the Military Ombud should provide a breakdown of cases that will allow the Committee to track the turnaround time of cases and the age of individual cases.
* The Military Ombud must report, in its Annual Reports, the number of decisions not implemented by the Minister of Defence as well as the reasons for non-implementation.
* The Committee recommends increased outreach projects by the Military Ombud focusing on all provinces. Furthermore, additional outreach projects with civil-society is urged, specifically in areas where the SANDF is domestically deployed.

Report to be considered.