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**ANNOUNCEMENTS,
TABLINGS AND
COMMITTEE REPORTS**

MONDAY, 31 OCTOBER 2022

TABLE OF CONTENTS

TABLINGS

National Assembly and National Council of Provinces

1. Minister of Communications and Digital Technologies2

COMMITTEE REPORTS

National Assembly

1. Defence and Military Veterans.....3
 2. Defence and Military Veterans.....25
 3. Defence and Military Veterans.....46
 4. Public Service and Administration.....71

TABLINGS

National Assembly and National Council of Provinces

1. The Minister of Communications and Digital Technologies

- (a) Report and Financial Statements of the South African Postbank SOC Ltd (Postbank) for 2021-22, including the Reports of the Auditor-General on the Financial Statements for 2021-22.
- (b) Report and Financial Statements of the South African Postbank SOC Ltd (Postbank) for 2020-21, including the Reports of the Auditor-General on the Financial Statements for 2020-21.
- (c) Report and Financial Statements of the South African Postbank SOC Ltd (Postbank) for 2019-20, including the Reports of the Auditor-General on the Financial Statements for 2019-20.

COMMITTEE REPORTS

National Assembly

1. BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2021/22 ANNUAL REPORT OF THE DEPARTMENT OF DEFENCE (DOD), DATED 26 OCTOBER 2022.

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the financial and service delivery performance of the Department of Defence (DOD) for the 2021/22 financial year, on 12 October 2022, reports as follows:

1. INTRODUCTION

1.1. Description of core functions of the Department

Section 200 of the 1996 Constitution sets out the mandate of the South African National Defence Force (SANDF), while Section 204 establishes a civilian secretariat for the Department. The mandate of the SANDF is to “*defend and protect the Republic, its territorial integrity and its people in accordance with the Constitution and the principles of international law regulating the use of force*”. In pursuance of this mandate, the Department of Defence (DOD) provides, manages, prepares and employs defence capabilities commensurate with the needs of South Africa, guided by the Constitution, relevant legislation and Executive direction.

1.2 Mandate of the Committee

The Portfolio Committee on Defence and Military Veterans (PCODMV) is mandated to oversee the Department of Defence and Military Veterans (DODMV) to ensure that the Department fulfils its mandate through the monitoring of the implementation of legislation and adherence to policies, such as the Defence Act (No. 42 of 2002), the White Paper on Defence (1996) and the 1998 Defence Review and the 2015 Defence Review. These policy guidelines assist the Committee in its oversight activities. The Committee scrutinises legislation that supports the mission statement of Government, the budget and functioning of DODMV, and the employment of the SANDF.

1.3 Purpose of the BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (Act 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:

- a) an assessment of the department’s service delivery performance given available resources;
- b) an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
- c) 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

comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process. 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 comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

1.4 Methodology in compiling the report

The Report is compiled from the various activities of the Committee throughout the financial year. It is inclusive of the Committee's meetings, oversight visits, reports on budget votes, strategic plans, annual performance plans (APP), quarterly reports and the relevant annual report, as well as previously published Committee reports.

1.5 Information used to compile the Report

Besides the information emanating from the oversight visit, other information used in the assessment of the service delivery and financial performance include:

- Committee reports on the 2021/22 budget hearings, strategic plans and annual performance plans;
- The National Development Plan 2030 (NDP);
- The 2021 Estimates of National Expenditure (ENE);
- The 2021 State of the Nation Address (SONA); and
- The Auditor-General of South Africa (AGSA) Report on the DOD.

1.6 Structure of the Report

This report comprises seven sections:

- An Introduction which sets out the mandate of the Committee, the purpose of this report (BRRR).
- An overview of the key relevant policy focus areas.
- An overview and summary of previous key financial and performance recommendations of Committee (2020/21).
- A broad overview and assessment of financial performance of the DOD for 2021/22.
- An overview of service delivery and performance of the DOD for 2021/22.
- Key Committee Observations.
- Key Committee Recommendations.

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1 State of the Nation Address

President Ramaphosa delivered his State of the Nation Address (SONA) on 11 February 2021. The SONA was dominated by four key aspects, including the ongoing impact of and fight against the Covid-19 pandemic; efforts to accelerate economic recovery; attempts to boost

inclusive economic growth; and, strengthening anti-corruption efforts and strengthening the weakened state. Similar to previous years, with these focal points dominating the Address, little opportunity was left for emphasis on matters pertaining to the DOD. However, some aspects noted by the President have an impact on the broader defence sector.

- *Noting the role of soldiers in the fight against Covid-19:* Along with other sectors such as the health services and police, the President noted the important role and determination of soldiers in South Africa's efforts to combat Covid-19.
- *The need to strengthen the health system:* Amid the ongoing Covid-19 pandemic, the President highlighted the clear need for the strengthening of the health system. These efforts also relate to the South African Military Health Services (SAMHS) that provides health services to SANDF members and military veterans.
- *Overcome joblessness:* The President noted the significant impact of the Covid-19 pandemic on employment in the country, currently standing at 30.8%. The Department of Defence (DOD) is not a major contributor to employment, but provides opportunities to young South Africans to join the SANDF through the Military Skills Development System (MSDS).
- *The need for local production and the purchasing of locally made products.* The President placed significant emphasis on economic recovery and efforts to boost economic growth. Specific mention was made of sector master-plans aimed at growing specific sectors of the economy. While no specific mention was made of the domestic defence industry, it is nonetheless an important industry that has the potential to aid economic growth.
- *Internal roles for the SANDF.* With reference to the development of the Border Management Agency, the President referred to efforts to curb illegal immigration and cross-border crime. While the SANDF is not directly involved with the functions of the BMA, it is the primary entity responsible for borderline control (between border posts).

2.2 The National Development Plan 2030

The National Development Plan (NDP) presents a number of Recommendations, Actions and Indicators that relate to the DOD. The following represent some of the key aspects with relevance to the DOD:

- Chapter 7: Positioning South Africa in the World. The NDP proposes the convening of a high-level, high-impact task team to investigate South Africa's foreign relations. The study should outline an implementation programme to reach these objectives, focusing on, *inter alia*, national defence. The DOD contributes to this focus point of the NDP through peacekeeping operations and the presence of defence *attaches* around the world. Chapter 7 of the NDP also recommends that South Africa should extend the current agreement that allows the South African Navy to undertake anti-piracy operations in Mozambican and Tanzanian waters, to include Kenya. South Africa's anti-piracy operation, which involves the South African Air Force, Special Forces and South African Military Health Services as well as the South African Navy, must be strengthened in order for operations to be sustained.
- Chapter 7 of the NDP also recommends the strengthening of border-enforcement to curb cross-border smuggling of counterfeit goods.
- Chapter 9: Promoting health. The NDP notes the aim of Universal Health Care coverage and that everyone must have access to an equal standard of care, regardless of their

income. The DOD provides health services to all members of the SANDF through the SA Military Health Services (SAMHS), as well as assisting mil veterans with medical care.

- Chapter 14: Fighting corruption. The NDP aims for corruption-free society, a high adherence to ethics throughout society and a government that is accountable to its people. The DOD furthers this goal through a number of initiatives, including the national anti-corruption hotline, Corruption and Fraud awareness campaigns as well as implementing and monitoring the DOD Procurement Policy.

The envisaged contributions are further expanded on in the Medium-Term Strategic Framework (MTSF).

2.3 The Medium Term Strategic Framework (2019 - 2024)

The 2019-2024 Medium Term Strategic Framework (MTSF) of Government identifies a number of priorities that are based on the electoral mandate. The 2021/22 Annual Reporting period falls under the mentioned MTSF. The MTSF identifies 7 priorities of Government and the DOD plays an important role in Priority 6 (Social cohesion and safer communities) and Priority 7 (A better Africa and world). Contributions to these outcomes are summarised in the table below.

DOD contributions to strategic outputs

MTSF Priority	Performance indicator	Target 2021/22	Achievement 2021/22
Priority 7	Total number of Defence Attaché Offices	44 Offices	44 Offices
Priority 6	Number of Reserve Force man days	2 601 519	3 237 118
Priority 7	Percentage compliance with the Southern African Development Community Standby Force Pledge	100%	100%
Priority 7	Percentage compliance with number of ordered commitments (external operations)	100%	100%
Priority 6	Percentage compliance with number of ordered commitments (internal operations)	100%	100%
Priority 6	Number of Joint, Interdepartmental, Interagency and Multinational military exercises conducted	2	1 <i>Covid-19 impacted international exercises</i>
Priority 6	Number of landward subunits deployed on border safeguarding	15	15
Priority 6	Number of hours flown per year (includes an estimated 4 000 hours for Force Employment,	17 100	15 215 <i>Flying dependent on serviceable aircraft; spares</i>

	<i>approximately 12 100 hours for Force Preparation and 1 000 VVIP hours.)</i>		<i>delivery delayed due to Covid</i>
Priority 6	Number of hours at sea per Year <i>(Target reduced from 10 000 hours in 2020/21 to 8 000 in 2021/22)</i>	8 000	7 614
Priority 6	Number of coastal patrols	4	4

3. SUMMARY OF PREVIOUS (2020/21) KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

3.1 Budgetary Review and Recommendations Report (BRRR) 2021 recommendations

Based on its analysis and overview of the 2020/21 Annual Report of the DOD, the Committee made the following recommendations:

Recommendations to the Minister of Finance:

- The Committee notes with concern the DOD's continuous overspending on Compensation of Employees against the ceiling set by National Treasury that again resulted in irregular expenditure in 2020/21. This concern requires short-term and long-term solutions. National Treasury should reconsider assisting the DOD with its plans to cut Compensation of Employees by providing additional funding for an Exit Mechanism and indicate to the Committee whether it is willing to start funding such a mechanism should the DOD show success in the implementation of its plans to curtail Compensation of Employees expenditure.
- The Committee is aware of fiscal constraints and noted National Treasury's previous response to the BRRR that no funds were available for a ring-fenced allocation to fund the midlife upgrades of the SA Navy vessels. However, the Committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy's Frigate and Submarine fleet in the coming years. The non-availability of naval platforms due to maintenance requirements results in the SA Navy not achieving its targets for coastal patrols and sea hours, thus affecting its constitutional mandate to ensure the territorial integrity of South Africa. Additional funding over the medium-term for the midlife upgraders are therefore essential.

Recommendations to the Minister of Defence:

- Following consultation with National Treasury, the DOD should indicate to the Committee, before the end of January 2022, how the projected shortfall in Compensation of Employees for 2021/22 will be funded. If the DOD is required to fund the shortfall from within its existing 2021/22 allocation, a detailed breakdown of shifts and virements should be provided. The report should also provide an overview of expected savings due to interventions to contain cost pressures related to Compensation of Employees over the medium-term and when a break-even point is expected to be reached.

- The DOD should update the Committee on a quarterly basis on the progress related to the implementation of interventions to contain cost pressures related to Compensation of Employees.
- The DOD should update the Committee on a quarterly basis on the progress related to investigations into cases of irregular, fruitless and wasteful expenditure.
- The Committee recommends that the DOD's Internal Audit capacity with the concurrence of the Audit Committee, put in place measures to prevent a recurrence of the matters for qualification as noted by the AGSA.
- The Committee encourages the Minister to ensure that consequence management is visibly implemented within the Department. The Committee will, as part of its 2022 oversight programme follow-up in this regard, specifically as it relates to the matter of the PPE acquisition noted by the AGSA.
- While the Committee expressed understanding that the Covid-19 pandemic impacted on the DOD's training programme, the Department should ensure that training targets in various programmes are met going forward. The DOD should provide updates on performance against set training targets as part of its quarterly reporting to Parliament going forward for the remainder of the 2021/22 reporting period.
- The DOD should update the Committee as part of its quarterly reports on progress related to reimbursements from the United Nations. The Minister is further encouraged to resolve this as a matter of urgency by implementing measures to ensure higher levels of compliance with United Nations equipment inspections.
- In its next quarterly report to the Committee, the DOD should indicate progress related to flying- and sea-hours for 2021/22 and provide a list of factors contributing to the non-achievement of these targets. This list will enable the Committee to direct its future oversight to the root causes of non-achievement against set flying- and sea-hour targets.
- The Committee encourages the Minister to re-evaluate the need for 44 Defence Attaché offices, especially given the current financial constraints faced by the Department, and that DIRCO is downscaling in this regard. Feedback on this process should be provided to the Committee as part of the quarterly reporting for 2021/22 and a way forward should be contained in the 2022 APP.
- The Committee encourages the Minister to build a closer relationship between the local Defence Industry and the SANDF to ensure the continued viability of the industry and appropriate local support to the SANDF's operational capacity.

3.2 Response by the Minister of Finance

The following responses to the above recommendations were received from the Minister of Finance:

Recommendation: The Committee notes with concern the DOD's continuous overspending on Compensation of Employees against the ceiling set by National Treasury that again resulted in irregular expenditure in 2020/21. This concern requires short-term and long-term solutions. National Treasury should reconsider assisting the DOD with its plans to cut Compensation of Employees by providing additional funding for an Exit Mechanism and indicate to the Committee whether it is willing to start funding such a mechanism should the DOD show success in the implementation of its plans to curtail Compensation of Employees expenditure.

Treasury

Response:

The National Treasury agrees that the department requires both a short- and long-term plan to manage compensation spending pressures. The DOD is allocated R1.8 billion over the

medium-term to implement an exit mechanism that includes employee-initiated packages and early retirement without penalising pension benefits.

Recommendation: The Committee is aware of fiscal constraints and noted National Treasury's previous response to the BRRR that no funds were available for a ring-fenced allocation to fund the midlife upgrades of the SA Navy vessels. However, the Committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy's Frigate and Submarine fleet in the coming years. The non-availability of naval platforms due to maintenance requirements results in the SA Navy not achieving its targets for coastal patrols and sea hours, thus affecting its constitutional mandate to ensure the maritime territorial integrity of South Africa. Additional funding over the medium-term for the midlife upgrades are therefore essential.

Treasury Response: The National Treasury notes the Committee's concern. Given the limited scope to provide additional funding, the National Treasury's recent engagements with the Department have focused on resolving its immediate compensation spending pressures. The reforms described above are expected to generate savings that can be used for other priorities such as the midlife upgrade of the SA Navy vessels.

4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE FOR 2021/22

The DOD has eight programmes through which it executes its various tasks. The financial performance and performance against set targets of the various programmes and subprogrammes for 2021/22 are contained in the sections to follow.

4.1 Programme 1: Defence Administration

4.1.1 Defence Administration financial shifts and expenditure

Programme	Adjusted Appropriation	Virement R'000	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Administration	5 571 444	(197 375)	5 374 069	5 367 098	6 971	0.1 %

The purpose of this programme is to provide strategic leadership, management and support services to the DOD. The Administration programme's total expenditure for 2021/22 came to R5.367 billion, following virements of R197 million (3.5%) away from the programme. The virements away from the programme largely impacted on:

- Operating leases (R246.8 million).
- Travel and subsistence (R45.3 million).
- Operating payments (R34.3 million)

The subprogrammes most affected by virements include the following:

- Ministry (a reduction of R53.06 million)
- Financial services (a reduction of R48.4 million)
- Human Resources Support Services (R43.9 million)

- Defence Foreign Relations (a reduction of R48.9 million)
- Communication Services (a reduction of R36.8 million)
- Office Accommodation (an increase of R72.1 million)

In terms of expenditure per economic classifications, the following may also be noted:

- *Consultants*: A virement of R2.6 million was made to increase the allocation for consultants, resulting in final expenditure of R9.8 million for 2021/22, compared to R9.2 million in the previous year.
- *Food and food supplies*: A virement of R13.2 million was made to increase the allocation for food and food suppliers, resulting in final expenditure of R20.9 million for 2021/22. Although lower than the previous year, this is a major addition and may point to poor planning on this item in the original budgeting.
- *Operating leases*. A virement of R246.8 million was made to decrease payments to operating leases in Programme 1. The details of this significant reduction are unclear.
- *Property payments*. While operating leases decreased, a virement of R200.7 million was made to property payments.
- *Rental and hiring*. While the DOD planned to spend only R50 000 on rental and hiring in Programme 1 in 2021/22, a virement of R4.1 million increased the final expenditure to R4.2 million for the year under review.

4.1.2 Defence Administration performance

The Administration programme set seven (7) targets for 2021/22 of which one is considered classified information. This is a reduction of 2 targets compared to 2020/21, of which one of the previously included targets related to the reduction in number of audit qualifications. Of the remaining six (6) targets, four were achieved, reflecting a 66% success rate.

Administration programme: Selected performance against set targets

Subprogramme	Target description	2021/22 Target	2021/22 Achievement	Comments
<i>Defence strategic direction</i>	% adherence to DOD index for policies	>60% (Target lowered from 80% in 2020/21)	66%	Six DOD Policies promulgated Achieved
	% adherence to DOD index for strategies	5.5%	0%	DOD Defence Ambition strategy was planned to be developed. Only a conceptual framework was determined Not achieved

Subprogramme	Target description	2021/22 Target	2021/22 Achievement	Comments
	% adherence to DOD index for plans	100%	88.6%	39 of 44 Planning Instruments finalised Not achieved
	Number of Reserve Force man days	2 601 591	3 237 118	Additional deployments as part of the national state of disaster Over-Achieved
	Audits completed in terms of the approved Internal Audit Plan	80%	82.5%	33 of 40 internal audits completed Achieved
Defence Capabilities provided	Number of Defence Attaché Offices	44	44	Achieved

4.2 Programme 2: Force Employment

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Force Employment	4 475 118	(358 009)	4 117 109	4 117 109	0	0 %

The purpose of this programme is to provide and employ defence capabilities. In 2021/22, following the adjusted appropriation, a further virement of R358.0 million was made away from the programme. The Subprogramme 4 (**Regional Security**) was most affected as it saw its allocation decreased by more than 30% with R518.2 million from an adjusted allocation of R1.4 billion to actual expenditure of R852.6 million. Subprogramme 3 (Special Operations) received an increased allocation of R124.7 million through a virement.

In terms of economic classifications, the virements away from the Force Employment programme was largely in terms of the following:

- The allocation for Contractors was decreased from its adjusted allocation of R288.5 million to final expenditure of R106.5 million.
- The allocation for fuel, oil and gas was decreased from its adjusted allocation of R172.3 million to final expenditure of R84.3 million.
- The allocation for Operating Payments was decreased from its adjusted allocation of R189.0 million to final expenditure of R7.8 million.
- The allocation for Buildings was decreased from its adjusted allocation of R74.8 million to final expenditure of only R4.7 million.

A total of nine (9) targets were set for the programme of which three were classified. Of the six (6) remaining targets, four (4) were achieved. Of specific concern is the regression in the level of UN reimbursement from 52% in 2020/21 to 47% in 2021/22.

Force employment programme: Selected performance against set targets

Target description	2021/22 Target	2021/22 Achievement	Comments
Number of planned joint, interdepartmental and multinational military exercises	2	1	Exercise Good Hope with the German Navy was cancelled by mutual agreement. Exercise Ndlovu successfully completed at the SA Army Combat Training Centre. Not achieved
Number of landward sub-units deployed for border safeguarding	15	15	Achieved
Percentage compliance with number of external operations	100%	100%	Ops Mistral to the DRC Achieved
Reimbursement from the UN for SANDF deployments	70%	47%	<i>Members may note a decreased achievement from 52% in 2020/21 to 47% in 2021/22.</i> Not achieved
Compliance with SADC Standby Force	100%	100%	Achieved
Compliance with internal operations	100%	100%	Support to SAPS (Ops Prosper), Humanitarian assistance (Ops Chariot), Search and Rescue (Ops Arabella) and Border safeguarding (Ops Corona) Achieved

4.3 Programme 3: Landward defence

Program me	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Landward Defence	15 194 698	1 177 359	16 372 057	16 372 057	0	0.0%

The purpose of this programme is to provide prepared and supported landward defence capabilities for the defence and protection of South Africa. In terms of spending, all subprogrammes spent 100% of their final appropriation. Following the adjusted appropriation, further virements to the value of R1.177 billion was made to the programme. This large virement constitutes 7.75% of the total Landward Defence budget. The subprogrammes most affected by the large virement to the programme include the following:

- Infantry capability (allocation *increased* by R593.6 million)
- Engineering capability (allocation *increased* by R171.3 million)
- General Training capability (allocation *increased* by R185.2 million)
- Signal capability (allocation *increased* by R207.8 million)
- Support capability (allocation *decreased* by R409.9 million)

In terms of economic classifications, the R1.177 billion virement was largely for:

- Contractors (an increase of R528.6 million), but only R44.2 million was spent by year-end.
- Fleet services (an increase of R132.1 million), but only R31.3 million was spent by year-end.
- Fuel, oil and gas (an increase of R112.6 million), but only R172.2 million was spent by year-end.
- Materials and supplies (an increase of R122.3 million), but only R9.1 million was spent by year-end.
- Travel and subsistence (an increase of R247.7 million), of which 100% was spent.
- Operating payments (an increase of R129.0 million). Of which only R32 million was spent by year-end.

Four (4) targets were set for this programme of which two are considered classified. The DOD managed to achieve both non-classified targets. The over-achievement on its training target is specifically noteworthy, with 10 507 training opportunities achieved against a target of 5 039.

4.4 Programme 4: Air defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Air Defence	6 369 608	(488 443)	5 881 165	5 881 165	0	0%

The purpose of the Air Defence programme is to provide prepared and supported air defence capabilities for the defence and protection of South Africa. In terms of spending, all subprogrammes spent 100% of their final appropriation by the end of the financial year. Virement of R488.4 million was made away from the programme, mostly affecting the following programmes:

- Helicopter capability (allocation *reduced* by R333.1 million)
- Transport and maritime capability (allocation *reduced* by R280.5 million)
- Air Combat capability (allocation *reduced* by R157.7 million)
- Base support capability (allocation *increased* by R336.9 million)

In terms of economic classifications, there was an over-expenditure on CoE to the value of R321.3 million. This amount was largely recovered from savings on spending on Contractors. Programme 4 planned to spend R1.6 billion on Contractors, but a virement of R475.2 million reduced this amount and further under-spending resulted in only R799.7 million being spent on Consultants.

Other noteworthy economic classifications where virements had a significant impact included the following:

- Food and food supplies (allocation increased by R111.9 million)
- Fuel, oil and gas (allocation reduced by R75.9 million)

- Materials and supplies (allocation reduced by R35.1 million). This reduction is more than the total adjusted allocation, which means that Programme 4 did not spend any money on materials and supplies in 2021/22.
- Operating payments (allocation reduced by R37.3 million)
- Machinery and equipment (allocation increased by R54.8 million).

Five (5) targets were set of which two are deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities available). Programme 4 did not achieve its flying hours' target, nor the target for SA Air Force training in 2021/22.

Air Defence programme: Selected performance against targets

Target description	2021/22 Target	2021/22 Achievement	Comments
Air Defence Training targets	80% (687)	48.3% (415)	Training impacted by Covid-19 and courses were still ongoing by the end of 2021/22 Not achieved
Number of Air Defence unique force training exercises conducted	1	1	Ex Winter Solstice Achieved
Number of flying hours per year	17 000	15 215	10 986 hours for force preparation 3 411 hours for force employment 819 VVIP hours Not achieved

4.5 Programme 4: Maritime defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Maritime Defence	4 492 826	(359 426)	4 133 400	4 133 400	0	0%

The purpose of the programme is to provide prepared and supported maritime defence capabilities for the defence and protection of South Africa. The Maritime Defence programme spent 100% of its final allocation of R4.133 billion by the end of 2021/22. Following the mid-year adjustments, the allocation for the programme was further reduced through a virement of R359.4 million.

The Maritime Combat capability's allocation was reduced by R232.5 million through the virement, while the Maritime Logistics Support Capability was the subprogramme most affected by the virement with its allocation being reduced by R250.1 million. In terms of economic classifications, the Programme over-spent on CoE by R195.9 million. This was largely recovered through under-spending on Contractors (by R90.7 million), Fuel, oil and gas (by R95 million) and other inventory supplies (by R10.3 million)

Other noteworthy economic classifications where virements had a significant impact included the following:

- Food and food supplies (allocation reduced by R39.5 million).
- Materials and supplies (allocation reduced by R71.9 million).
- Property payments (allocation reduced by R33.9 million) and final expenditure of only R1.8 million.

For the period under review, the Maritime Defence Programme had six (6) targets of which two were deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities). The only target not achieved relates to the total number of sea hours, with an achievement of 7 614 against a target of 8 000.

4.6 Programme 6: Military Health Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Military Health Support	5 474 287	52 289	5 526 576	5 525 749	827 000	0%

The purpose of the Military Health Support Programme is to provide prepared and supported health capabilities and services for the defence and protection of South Africa. The programme underspent its budget marginally by R827 000 for 2021/22. Underspending was recorded in the Strategic direction subprogramme.

In terms of subprogramme expenditure, virements can be noted in all subprogrammes, most notably in the following:

- Strategic Direction (an addition of R33.8 million)
- Area Military Health Services (a reduction of R42.6 million)
- Military Health Product Support (a reduction of R168.3 million)
- Military Health Maintenance Capability (no initial budget allocation for this subprogramme, but an addition of R105.1 million through a virement).

In terms of economic classifications, Programme 6 overspent by R365.9 million on CoE. This was recovered by underspending on Contractors (R328.9 million) and fuel, oil and gas (R34.8 million). Of further interest in terms of the Military Health Support programme's economic classifications are several virements made resulting in expenditure not aligned with planned expenditure as per the Adjusted Appropriation, including:

- Only R2.7 million was spent on minor assets against planned expenditure of R46.6 million.
- R542.4 million was spent on outsourced services against planned expenditure of R708.2 million. This is in line with the 2020/21 outsourced spending of R504.8 million.
- Only R63.0 million was spent on Medical Supplies against planned expenditure of R127.4 million.
- A virement of R11.3 million was made away from the allocation for Medicine.

- A virement of R39.4 million was made to the allocation for Travel and Subsistence, resulting in final expenditure of R52.7 million against planned spending of R13.3 million. Final spending is, however, aligned to the spending patterns of 2020/21.
- Only R19.6 million was spent on Machinery and Equipment during 2021/22 compared to R71.9 million in 2020/21. Given the high cost of medical equipment, this level of expenditure seems particularly low for the year under review.

The programme had four targets of which three were classified. The programme did not achieve the one declassified target around Military Health Training, achieving only 270 of the planned 648 training activities.

4.7 Programme 7: Defence Intelligence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Defence Intelligence	776 301	1 993	778 294	778 294	0	0%

The purpose of Defence Intelligence programme is to provide a defence intelligence and counter-intelligence capability. For 2021/22, the programme spent 100% of its final allocation. Its allocation was marginally increased after the mid-year adjustments through a virement of R2.0 million. This virement was largely for the Defence Intelligence Support Services subprogramme.

In terms of economic classifications, funds were shifted around to accommodate higher than planned CoE expenditure through a virement of R22.9 million. This was largely accommodated through reduction in the allocation to Travel and subsistence (R19.2 million reduction). Furthermore, it appears that funds were shifted through virements from Operating Leases to Building and fixed structures to the value of R48.4 million.

The programme achieved both targets reported on in the Annual Report related to the number of vetting decisions and the number of Defence Intelligence Products.

4.8 Programme 8: General Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
General Support	6 442 139	171 612	6 613 751	6 601 042	12 709	0.2%

The purpose of the General Support programme is to provide support capabilities and services to the Department. The programme spent 99.8% of its final appropriation of R6.6 billion by the end of the financial year. After the mid-year adjustments, an additional R171.6 million was allocated to the programme through a virement.

Major shifts in the programme included the increase in the Joint Logistical Services allocation (by R222.7 million) through a virement. The Military Police subprogramme's allocation was

also increased (by R48.3 million) through a virement while the Command and Management Information Services' allocation was reduced by R88.5 million).

In terms of economic classifications, the General Support programme overspent on CoE by R162.7 million. This was largely recovered from underspending on Computer Services (by R59.9 million), Consultants (by R71.1 million), Property payments (by R31.6 million) and Payment for financial assets (by R12.5 million).

In terms of performance, a total of six (6) targets were set for 2021/22 and four (4) were achieved, as depicted in the Table below.

Programme 8: General Support achievements against targets for 2021/22

Target description	2021/22 Target	2021/22 Achievement	Comments
Percentage procurement requests fully completed within 90 days from day of registration	95%	97.5%	Achieved
Payment of leases, Accommodation charges and municipal services – Payment according to facilities plan	100%	102.65%	Additional amount paid for projects finished ahead of schedule. Achieved
Compliance with ICT Capabilities Plan	90.4%	45.7%	Under-expenditure of planned funds. Not achieved
Number of Crime Prevention operations conducted	124	118	Resource constraints. Not achieved
Criminal cases investigated (backlog)	40%	73.9%	The Department investigated 1 307 criminal cases from the backlog of 1 767 criminal cases. Achieved
Criminal cases investigated (in-year)	25%	53.6%	1 177 new cases were received of which 631 cases were investigated. Achieved

5. ORGANISATIONAL STRUCTURE AND HUMAN RESOURCE SUPPORT

The Human Resources (HR) Management chapter of the 2021/22 Annual Report deals with various issues related to personnel. Among others, the following key aspects can be considered:

- **Personnel spending (Compensation of Employees):** The DOD received a main appropriation for Compensation of Employees at the start of 2021/22 to the value of R29.347 billion which was adjusted upwards during the mid-year adjustments to

R31.014 billion. The adjustment was made by National Treasury for Operations Prosper and Vikela (R354 million) and annual salary adjustments (R1.3 billion). At the end of 2021/22, the DOD spent R33.722 billion on Compensation of Employees which is **69.14% of the Department's total expenditure**. The DOD overspent on Compensation of Employees by R2.708 billion in 2021/22. CoE over-expenditure was largely recouped from cutting spending on contractors (by R1.8 billion), Fuel, oil and Gas (by R317.6 million, Materials and supplies (by R119.3 million) and Operating Payments (by R108.6 million).

- **Increase in the number of posts approved on the establishment.** By 31 March 2021, the DOD Annual Report noted that there were 89 500 posts on the approved establishment. One year later, by 31 March 2022, the number of posts approved on the establishment increased by 557 to 90 057. This increase in establishment posts mostly relate to the General Support and Defence Intelligence programmes. The increase in posts should be seen against the number of filled posts which stood at 72 175 by the end of 2021/22.
- **Increase in the number of General Support personnel.** While most programmes reflect a staff reduction, the number of filled posts in the General Support programme increased from 5 620 at the end of 2020/21 to 6 536 at the end of 2021/22.
- **Positive improvement in hiring of engineers.** The number of engineers in the DOD increased from 85 at the end of 2020/21 to 104 at the end of 2021/22. The vacancy rate for engineers was reduce from 53% to 37%. However, further recruitment will be required to continue to lower the vacancy rate, specifically if the DOD wants to expand the Defence Works Formation.
- **Critical occupation vacancy rates:** In terms of critical occupations, other areas with high vacancy rates should be noted:
 - Airspace Control has a vacancy rate of 11.5%
 - Aircrew has a vacancy rate of 25%.
 - Nursing has a vacancy rate of 16.6%.
 - Technical has a vacancy rate of 23.3%.
- **Employees with salaries higher than those determined by job evaluation:** The DOD has one senior manager (the CFO) who earns a salary which is higher than that determined by the Job Evaluation.
- **Promotions by salary band to higher salary notches.** In 2021/22, 10 724 DOD members (14.7% of the work force) received promotions to a higher salary level. This percentage of employees receiving salary level increases is higher than in 2020/21 (8.3%), 2019/20 (8.0%), 2018/19 (7.0%) and 2017/18 (9.03%).

- **Future employment equity concerns.** While the DOD has made significant progress in addressing employment equity, current recruitment patterns reflect poorly on employment equity and may bring about equity misalignment in future. In 2021/22, 2007 MSDS members were recruited to the SANDF. Of these, 224 (11.2%) were coloured, 55 (2.7%) Indian; and only 64 (3.2%) were white, while there were 1 664 (82.9%) Africans. It is evident that efforts should be enhanced to attract young South Africans of *all* races to serve in the SANDF.
- **Non-signing of performance agreements by Senior Management:** Eight (8) of the total of 279 senior managers did not sign their performance agreements. Four of these exited the DOD.
- **Sick leave cost:** The total cost of sick leave has fluctuated significantly in recent years. However, in 2019/20, the total cost of sick leave increased drastically to R400.2 million and again decreased significantly to R259.0 million in 2020/21. In 2021/22, the cost of sick leave increased to R314.5 million and the average number of sick days remained at 7 per employee. The average number of days' sick leave per employee decreased from 8 in 2019/20 to 7 in 2020/21.

6. BROAD FINANCIAL CONCERNS AND THE AUDITOR-GENERAL'S REPORT

6.1 Unauthorised, fruitless and wasteful, and irregular expenditure

Irregular expenditure, according to the DOD, amounted to R3.153 billion for 2021/22, which is higher than the R2.182 billion irregular expenditure incurred in 2020/21. According to the DOD, major contributors to irregular expenditure include:

- R2.7 billion was for expenditure above the Compensation of Employees allocation; this was due to a reduction imposed by Treasury through budget reduction on actual employees in the services of the DOD.
- R187 million was incurred from irregular foreign imports (*most likely related to Project Thusano*).
- R94 million was incurred when goods and services with a procurement value above R1 million were purchased without competitive bids.
- R25 million was incurred when the Department followed an unfair bidding process in awarding fuel contracts for the North-West and Gauteng provinces.
- R20 million for an Information Communication Technology contract awarded in 2019/20. This contract will be concluded in 2022/23.

Fruitless and wasteful expenditure decreased from R4 million in 2020/21 to R3.332 million in 2021/22, based on 11 incidents which are under investigation. The main contributor relates to an incident of interest and foreign currency fluctuation for a late payment. Decisions on the way forward will be determined and appropriate action taken.

6.2 Findings by the Auditor-General of South Africa

As in the past two financial years, the DOD received a **qualified audit opinion** from the Auditor-General for 2021/22. The basis for the qualified audit opinion rests on the following:

- *Goods and services and investments.* Similar to previous years, the AG was unable to obtain sufficient appropriate audit evidence for sensitive projects (in relation to the Special Defence Account (SDA)).
- *Irregular expenditure.* The Department did not fully record irregular expenditure in the notes to the financial statements as required by the PFMA.
- *Movable tangible assets.* The AG was unable to obtain sufficient appropriate audit evidence for movable tangible capital assets as the Department could not indicate where these assets are located or provide other information relating to the existence of these assets. The AG was therefore unable to determine whether any adjustments were necessary to movable tangible capital assets stated at R64,72 billion.
- *Employee benefits.* The Department did not establish adequate internal controls to monitor leave processing. As a result, not all leave transactions were captured.

The AG also raised the following emphasis of matters:

- **Uncertainty of future outcomes of litigation:** The Department is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.
- **Payables not recognised:** Payables of R105.7 million exceed the payment term of 30 days as required by Treasury Regulation 8.2.3.

7. COMMITTEE OBSERVATIONS: DEPARTMENT OF DEFENCE

The Committee made the following general observations on the 2021/22 Annual Report:

- a. The Committee expressed concern around the lack of cooperation by the DOD with the AGSA in its auditing of Project Thusano and the value for money that the project offers. The DOD acknowledged that it provided the relevant information to the AGSA at a later stage and that the Department takes responsibility for this lapse in cooperation. The DOD also noted that the reconsideration of current contracts related to Project Thusano is under way.
- b. The Committee expressed its frustration at the DOD for not correctly utilising the R225 million allocated by the National Treasury for the purpose of acquiring border safeguarding technology. Members noted that this allocation from National Treasury was based on a recommendation by the PCODMV and that it was unacceptable for the funds to be used for other purposes when the Estimates of National Expenditure explicitly stated the purpose of the allocation. The DOD indicated that it utilised R65 million of the funds in 2020/21 in the fight against Covid-19 and R75 million in 2021/22 for improvement of facilities in borderline operational areas. The DOD then indicated that the outstanding R85 million is being used to acquire technology systems in

2022/23. Members again highlighted that additional funds were allocated to the DOD for the fight against Covid-19 in 2021/22 and the shifting of funds was therefore unnecessary.

- c. Members highlighted their concern with the DOD for not achieving its targets for sea hours for the SA Navy and flying hours for the SA Air Force. Members further expressed concern around value for money in this regard as Programme 4 (Air Defence) and Programme 5 (Maritime Defence) spent 100% of their budgets, but missed their set targets. The DOD explained that aircraft and vessel availability due to maintenance constraints continue to impact these targets.
- d. Based on the observation on the non-achievement of sea hours of the SA Navy, the Committee again recognised the need for the midlife upgrades of the SA Navy frigates and submarines to ensure they remain operational and are more readily available.
- e. Members welcomed the fact that Projects Biro and Hotel are on track and remain fully funded as these acquisitions will greatly assist the SA Navy to increase its patrolling capacity and improve its hydrographic services.
- f. The Committee questioned the DOD on whether there were any plans to upgrade the strategic airlift fleet of the SA Air Force, specifically the upgrading of the C-130 fleet. Members expressed the need for this to be addressed in the context of current SANDF deployments.
- g. Members noted the need for improved Facilities Management in the DOD. Examples noted include the SA Air Force Headquarters, where maintenance of the air conditioning system has been problematic, as well as the non-renewal of contracts for the environmentally controlled SA Army warehouses.
- h. The Committee questioned the progress made by the DOD in terms of the implementation of the 2015 Defence Review and whether a new Review should not be considered. The DOD noted that Milestone 1 of the Review aimed at ‘arresting the decline’ and that this has not been achieved. The Department further noted that there are work-sessions in progress to determine new levels of defence ambition. Once these are finalised, it will be taken to Cabinet for consideration as it has to be weighed against the Cabinet-approved 2015 Defence Review.
- i. Members questioned the DOD on their view of Project Hoefyster, notably the funding for the remainder of Phase 1 of the Project. The DOD noted that the financial reality has changed, and that Armscor has been tasked to do its own due diligence. Partners in the local defence industry will be required to ensure the successful move into Phase 2 of the Project.
- j. Given the various findings of the AGSA, the Committee expressed the need for improved capacity in the Internal Audit Division and for appropriate steps to be taken to ensure the implementation of the DOD’s audit action plans.

8. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2021/22 Annual Report, the Committee makes the following recommendations:

Recommendations to the Minister of Finance:

- a. The Committee expresses its disappointment with the DOD not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The Committee recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers. Subject to this reprioritisation being carried out and spent successfully, the Committee then recommends further ring-fenced allocations for border safeguarding technology by National Treasury for the outer-years of the 2023 MTEF.
- b. As in the PCODMV's BRRR recommendations to National Treasury in 2019, 2020 and 2021, the Committee again recommends a ring-fenced allocation for the midlife upgrades of the SA Navy frigates and submarines. The Committee is suggesting a staggered approach in this regard to limit the fiscal impact, but one that would ensure the midlife upgrades of all frigates and submarines over, for example, the next 7 to 10 years, starting in 2023/24. This will allow the SA Navy to appropriately plan vessel availability, adjust its sea-hour targets accordingly and report more accurately to Parliament. It would also add significant capacity in terms of maritime security which is currently characterised by very limited naval patrols.
- c. The Committee is concerned about the ability of the SA Air Force to effectively provide logistical and reinforcement support to SANDF members deployed outside South Africa due to limited strategic airlift capacity. The Committee therefore recommends an urgent ring-fenced allocation to address the strategic airlift shortcomings in the SA Air Force.
- d. The Committee is concerned about the stagnation and lack of investment in the SANDF landward defence capability, notably the SA Army's Infantry capability. This factor has been worsened by the non-finalisation of Project Hoefyster. The Committee therefore recommends engagement between National Treasury, the DOD and Armscor to consider further funding for Phase 2 of Project Hoefyster or, should this not be feasible, the upgrading of the current Ratel fleet to extend its serviceability. National Treasury, the DOD and Armscor should jointly report back to this Committee on the envisaged plan to address the Infantry capability constraints. These plans should be included in the DOD and Armscor Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.
- e. The Committee wishes to note to National Treasury that the SANDF's Mobility Packages being utilised for border safeguarding have been in use since 2017 and may soon reach the end of their lifespan. Given the ongoing role of the SANDF in border safeguarding, the Committee highlights the need for the DOD and National Treasury to jointly plan for upcoming expenses in this regard towards the end of the 2023 MTEF and beyond. The Committee also wishes to reiterate that the current Mobility Packages were considered an interim solution and any future joint planning by the DOD and Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.

Recommendations to the Minister of Defence:

- f. As noted in the recommendations to the Minister of Finance, the Committee recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers.
- g. The Committee urges the Minister to prioritise Consequence Management in the DOD through instructions to both the Secretary for Defence and the Chief of the SANDF. The Committee recommends that Consequence Management should be implemented on the most recent cases of irregular, unauthorised, and fruitless and wasteful expenditure and then they should work backwards to older cases. This will ensure that members are held to account before leaving the Department and serve as a deterrent against further such cases.
- h. With most aircraft maintenance programmes now in place, the Committee urges the SA Air Force to improve its achievement against planned flying hours going forward.
- i. The Minister is encouraged to engage National Treasury and ensure that sufficient ring-fenced funding is in place for the newly negotiated aircraft maintenance programmes over the MTEF.
- j. The DOD and DPWI should jointly, as a matter of urgency, address the air conditioning at the SA Air Force headquarters. It is further recommended that the environmentally controlled SA Army warehouses be reactivated.
- k. It is recommended that the Minister should address matters related to procurement processes in the DOD, with much of the procurement aspects currently located in the ambit of the SANDF's Chief of Logistics and not with the Chief Financial Officer. A workable long-term solution to ensure stability in the procurement environment should be prioritised.
- l. The DOD is encouraged to fully staff and prioritise its Internal Audit Division to ensure that audit action plans are implemented.
- m. The DOD should ensure timely cooperation with the Office of the AGSA whenever audit requests are submitted.

Reporting requirements:

1. The Minister of Defence should report to the Committee, in writing, on the outcome of the reconsideration of the current contracts related to Project Thusano by 1 February 2023. Against the view that the AGSA currently considers contracts under Project Thusano as irregular, the Ministerial response should include the planned way forward with the Project from 2023/24 onwards.
2. The Department should submit quarterly progress reports on the implementation of its Audit Action Plan. This should accompany the quarterly reports of the DOD to Parliament.
3. The DOD should provide bi-annual reports on the implementation of Consequence Management in relation to material irregularities, irregular, fruitless and wasteful expenditure in the Department. The first such report should be submitted to the PCODMV no later than 1 May 2023.
4. The Committee noted that virements in Programmes 3, 4 and 5 largely resulted in much reduced spending on Contractors. The DOD should provide the Committee with a written response on the planned Contractor spending that were not realised in 2021/22, specifically as it relates to maintenance of operational equipment. This information should be provided to the Committee by 15 December 2022.

5. In the 2021/22 Estimates of National Expenditure, the DOD planned to transfer R1.005 billion to the Special Defence Account. The DOD should provide information in writing to the Committee on the actual transfers to the SDA for 2021/22 as well as the total expenditure from the SDA for 2021/22. The DOD should further indicate how much of this spending was on (1) Capital acquisition, (2) maintenance projects, and (3) how much of the planned SDA expenditure was shifted and used for Compensation of Employees. This information should be provided to the Committee by 15 December 2022.

Report to be considered.

2. BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2021/22 ANNUAL REPORT OF THE DEPARTMENT OF MILITARY VETERANS (DMV), DATED 27 OCTOBER 2022.

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the financial and service delivery performance of the Department of Military Veterans (DMV) for the 2021/22 financial year on 19 October 2022, reports as follows:

1. INTRODUCTION

1.1 Description of core functions of the Department

The DMV derives its mandate from the Military Veterans Act (No 18 of 2011), which requires it to provide national policy and standards for socio-economic support to military veterans and to their dependents, including benefits and entitlements to help realise a dignified, unified, empowered and self-sufficient military veterans' community.

1.2 Mandate of Committee

The Portfolio Committee on Defence and Military Veterans (PCDMV) is mandated to oversee the DMV to ensure that the Department fulfils its mandate through the monitoring of the implementation of legislation and adherence to policies, such as the Military Veterans Act and the Military Veterans Benefits Regulations and other related legislation. It must scrutinise legislation which supports the mission statement of Government; the budget and functioning of DMV.

1.3 Purpose of the BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (Act 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:

- d) an assessment of the department's service delivery performance given available resources;
- e) an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
- f) 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 comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

1.4 Methodology in compiling the report

The Report is compiled from the various activities of the Committee. It is inclusive of the Committee's meetings, reports on budget votes, strategic plans, annual performance plans and annual reports, as well as previously published Committee reports.

1.5 Dates of oversight visits

The PCODMV conducted an oversight visit to the DMV Headquarters in Irene on 22 April 2022.

1.6 Information used to compile the Report

Besides information from oversight visits, other information used in the assessment of the service delivery and financial performance included the:

- The National Development Plan 2030;
- The 2021 Estimates of National Expenditure;
- The 2021 State of the Nation Address (SONA);
- Committee reports on the 2021/22 Budget Hearings, Strategic Plans and Annual Performance Plans reports; and
- The DMV Annual Report for 2021/22.
- The Auditor-General of South Africa (AGSA) Report on the DMV.

1.7 Structure of the Report

This Report comprises the following sections:

- Section 1: An introduction which sets out the mandate of the Committee, the purpose of this report.
- Section 2: An overview of the key relevant policy focus areas.
- Section 3: An overview and summary of previous key financial and performance recommendations of Committee (2020/21).
- Section 4: A broad overview and assessment of financial performance of the Department for 2021/22 and
Overview of service delivery and performance
- Section 5: Key Committee findings.
- Section 6: Key recommendations.

3. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1 State of the Nation Address 2021

President Cyril Ramaphosa, during his SONA on 11 February 2021, presented his SONA against the background that the world was in the grip of the Corona virus for almost a year. He

stated that its devastating impact has left very few untouched by its reach and depth. Although the DMV was not specifically referred to the following are of relevance to the Department:

- The President stressed that the success of vaccination programmes will rely on active collaboration between all sectors of society. He encouraged the active involvement of business, labour, the health industry and medical schemes in particular in preparing for this mass vaccination drive. The DMV through executing its mandate effectively, will assist in addressing the related challenges through, for instance, health support.
- It was pointed out that the pandemic has led to a sharp decline in economic growth and a significant increase in unemployment, that poverty was on the rise and that inequality was deepening. The DMV was thus indirectly requested to assist with filling vacancies, boost skills training en employment programmes and ensure military veterans receive their benefits due to them.
- The President referred to the social and economic relief package that was introduced in April last year which, by all accounts, was the largest intervention of its kind in our history. The DMV has also, through its activities, assisted military veterans to address loss of income.
- The President stated that “Our third priority intervention is an employment stimulus to create jobs and support livelihoods. The largest numbers of jobs, obviously, will be created by the private sector in a number of industries as the economy.” The DMV, through its skills development programmes, is assisting military veterans to become more self-sufficient and less reliant on government support.
- The President stated that “The public service is at the coalface of government, and lack of professionalism doesn’t just impact service delivery; it also dents public confidence. Advancing honesty, ethics and integrity in the public service is critical if we are to build a capable state.” This is an important issue in the context of the DMV, given the complaints received and especially the lack of or lengthy period when responses are received.

2.2. DMV contributions towards the National Development Plan (NDP) and Medium-Term Strategic Framework (MTSF) (Outcomes)

The Annual Report states, in contrast to previous years, that the Department does not directly contribute to the Medium Term Strategic Framework (MTSF) priorities 2019 - 2024 and the National Development Plan (NDP) 2030, but that it has its own priorities that are linked with the overall government priorities. It lists the following priorities:

- **PRIORITY 1: Strengthening governance and oversight protocols to give effect to the Act.**

This priority refers to its collaboration with the Internal Audit Function, the Audit Committee, and the AGSA. It states that this has helped with audit skills transfer and continual improvement of the internal control environment. It refers to the three organs of state namely the Advisory Council, the Appeal Board and the South African National Military Veterans Association (SANMVA). During the period under review, the Department’s oversight protocols were limping due to delays in electing the new members or leadership in those organs of state. Plans are underway to ensure that the members of these organs of state are elected to ensure the functionality of these bodies.

- **PRIORITY 2: To provide comprehensive support services to military veterans and, where applicable, to their dependents.**

Education, training and skills development: During the period under review, the DMV provided a total of 3 711 bursaries (2 920 for Basic Education and 791 for Tertiary Education) to Military Veterans and their dependants. Furthermore, 1 753 Military Veterans and dependants were approved for training and skills development programmes on digitalisation after a new agreement was signed with SITA during the period under review.

Access to health care: During the period under review a total number of 555 Military Veterans were authorised to access healthcare services through South African Military Health Services (SAMHS) facilities and/or SAMHS outsourced services. This resulted in a cumulative total of Military Veterans authorised to access healthcare of 19 100. Furthermore, 488 military veterans and or their dependants received Counselling services during the period under review.

Facilitation of employment placement: The DMV facilitated the registration of 19 unemployed Military Veterans on the Department of Employment and Labour database for employment opportunities in George and Ladysmith District areas.

Facilitation of or advice on business opportunities: During period under review, 117 Military Veterans companies were provided with facilitation or advice on business opportunities.

Subsidisation or provision of Public Transport: The policy is in draft however due to the complex public transport system in the country. The Department will be developing a strategy to better inform policy development for the benefit. In view of the current status, the target on the subsidised public transport benefit was not be achieved during 2021/22 financial year.

Housing: During the period under review, only 71 newly built houses (192 previous year) that were handed over to Military Veterans. This was due to roll over of some projects from the previous financial year by the Department of Human Settlements (DHS) in all Provinces. Delays in Supply Chain Management processes and appointment of contractors are some of the bottlenecks leading to poor delivery of houses for Military Veterans.

Compensation benefit: 120 (25 in the previous year) Military Veterans received the compensation benefit during period under review. This was due to assessments that were done to more than the planned target due to high demand on the benefits, as well as the proactive approach to avoid non-performance.

Burial support: The Department assisted 467 Military Veterans families with the burial support programme with 100% of claims paid within 30 days. In the previous year (2020/21), 379 military veterans' families were provided with this support and 99% of payments were paid within 90 days.

Pension: The policy in respect of this benefit has been drafted after extensive consultation with relevant stakeholders for input. An actuarial study has been undertaken by a service provider with financial modelling and recommendations for consideration and the Department is awaiting the final report. The target was not achieved during the period under review, however the process towards approving this policy are at an advanced stage such that the DMV is expecting to have the policy approved and implemented during 2022/23 financial year.

- **PRIORITY 4: Promotion of military veterans' heritage as well as memorialisation and honouring**

During the period under review, 5 (2 previous year) memorial lectures were coordinated for Military Veterans in appreciation of military veterans' contribution to the country's freedom and nation building.

- **PRIORITY 5: Maintain the credibility and security of the national military veteran database**

During the period under review, 3 005 applications (1 085 were verified and captured in previous financial year) of Non-Statutory Forces (NSF) members were processed by the National Military Veterans Verification Panel. A total of 1 436 applicants were physically interviewed by the panel and 637 did not appear before panel. Only 151 applicants were successfully recommended and 748 were not recommended for inclusion on the DMV National Database.

- **PRIORITY 6: Implementation of the high impact communication and marketing strategy and plan**

In partnership with Government Communication and Information System (GCIS) it raised the profile of Military Veterans as well as keeping the interest alive and momentum going. Several communication platforms were employed that targeted various segments and these were informed by the draft communication strategy and marketing plan. Several public participation engagements were conducted during the period under review.

2.3 DMV's outcomes, outputs, inputs and activities

DMV Outcomes

This is said to be embedded in the vision of the Department, and this vision is further denoted by "improved and sustainable livelihoods for military veterans' community."

DMV Output

The Outputs are key drives and is listed as:

- Ministerial and Strategic Direction
- Socio-economic support services
- Empowerment and Stakeholder Management.

DMV Activities

The above outputs will be achieved through the following activities:

- Provision of corporate support services for effective and efficient information management
- Provision of Executive and administrative support services to the Executive Authority priorities
- Provision of risk governance, legal frameworks and management services
- Accountable strategic budgeting systems, processes and services
- Audited DMV affairs.

2.4. Strategic Overview of DMV Strategic Plan and Annual Performance Plan

2.4.1 Vision, Mission and Values

The DMV's vision is "a dignified, unified, empowered and self-sufficient military veterans' community, while its mission is 'to facilitate delivery of benefits and coordinate all activities that recognise and entrench the restoration of dignity and appreciation of military veterans to our freedom and nation building.'"

The values are listed as:

- Integrity
- Compassion
- Honesty
- Professionalism
- Commitment and accountability

2.4.2 Strategic Plan 2020- 2025

The Department's Strategic Plan (2020 - 2025) outlines its Vision namely "*A dignified, empowered and self-sufficient Military Veteran's community,*" while its Mission is "*to facilitate delivery and coordinate all activities that recognise and entrench the restoration of dignity and appreciation of the contribution of Military Veterans to our freedom and nation building.*" It further outlines the Service Charter that underpins the delivery of service to military veterans, which emphasises *inter alia* service standards, teamwork, discipline, excellence, ethics, openness and transparency. It lists the legislative and other mandates with the primary source being the Military Veterans Act (No. 18 of 2011). The various planned policy initiatives are also recorded which are in the process of being finalised and/or approved.

2.4.3. Annual Performance Plan (APP)

Despite the 2021/22 Annual Report stating that the Department does not directly contribute to the MTSF and NDP, the 2020/21 APP, on page 24, did list the contributions that the DMV will make to the NDP. In brief, they contribute to Chapter 3: Economy and Employment through Education, training and skills development; Chapter 8: Transforming Human settlement through partnerships with Department of Human Settlement (DHS) through building houses; Chapter 9: Improving Education, Training and innovation by providing quality basic education through the provision of comprehensive support services to Military Veterans; Chapter 10: Promoting Health by providing comprehensive support services to Military Veterans and where applicable, to their dependants; Chapter 13: Building a Capable State through being an employer for both military veterans and their dependants; Chapter 14: Promoting Accountability and Fighting Corruption through providing an efficient, effective and development oriented public service; and Chapter 15: Transformative society and uniting the country through promoting social cohesion and righting the wrongs of the past; promoting decent employment through inclusive growth.

3. SUMMARY OF PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

3.1. BRRR Recommendations for DMV for FY 2020/21

Based on its analysis and overview of the 2020/21 DMV Annual Report, the Committee made the following recommendations:

- a. The Committee resolved to monitor and regularly follow up with the DMV on the implementation of its Audit Action Plans; the preventative controls and the implementation of consequence management in relation to irregular, fruitless and wasteful expenditure. With regards to the leadership issue raised by the AGSA, the Accounting Officer and senior leadership at the DMV, should ensure that they exercise adequate oversight over performance reporting, compliance with applicable legislation and related internal controls.
- b. The Department is required to review its Audit Action Plan and to present this to the Committee to allow it to be monitored on a quarterly basis.
- c. The Committee emphasised that the Department should serve all qualifying military veterans and their dependents with the necessary vigour and compassion, irrespective of who and where they are. The Committee will take exception if veterans are not treated in this manner, and in terms of the Military Veterans Act (No. 18 of 2011).
- d. The Committee stressed that it is unacceptable that officials in the Department do not treat and/or respond to queries by military veterans timeously and with compassion. The Department should give feedback on these cases, and should put measures in place to ensure that such conduct is being rooted out. The DMV should report to the Committee on these measures on a quarterly basis.
- e. The Committee stated that the Covid-19 pandemic, the reduced budget and the vacancies in senior positions might have contributed to the poor performance of the Department. The Department should however still endeavour to improve on its delivery of services and benefits to military veterans and their dependents as many of their clients are in dire need of these services and benefits.
- f. The reduction of annual performance targets as a result of the failure by the Department to achieve targets should be addressed as a matter of urgency, along with the above mentioned recommendations. Such reductions are detrimental to military veterans and their dependents and create the impression that the Department is content with such under-performance.
- g. The Committee recommended that the Department should prioritised the delivery of housing and clear obstacles in this regard at especially provincial and local government level, as the demand for this benefit is still high.
- h. The Department was encouraged to ensure that military veterans are routed to medical facilities near their homes to prevent them spending extra money on traveling. The Committee also stressed that this challenge is exacerbated by the fact that the subsidised public transport benefit has not materialised and lamented that it is still in the policy phase.
- i. The Committee recommends that the Department should explore avenues to assist military veterans staying in asbestos roof houses and give the Committee feedback at its quarterly meetings on this issue.

4. OVERVIEW AND ASSESSMENT OF THE 2021/22 DMV FINANCIAL PERFORMANCE

4.1 Budget Allocation and Expenditure for 2021/22

During the 2021/22 financial year, the allocation for Vote 26: Military Veterans in the Estimates of National Expenditure was R654.4 million, which was adjusted downwards to R607.4 million. The Department managed to spent R515.5 million, which is 78.9% of their main appropriation or 84.9% against the adjusted allocation. It reflects an underspending of R91.7 million or 15.1% of the adjusted budget. The previous financial year it received a total

main appropriation of R683.1 million which was adjusted downwards during the mid-year adjustment period and decreased to R480.3 million (R202.8 million less), of which they managed to spend R429.2 million or 89.4%.

Overview of Budget Allocation and Expenditure for 2020/21

Programme R'000	2020/2021 R'000			2021/2022 R'000		
	Final Appropriation	Actual Expenditure	Variance	Final Appropriation	Actual Expenditure	Variance
<i>Administration</i>	142 051	134 767	7 284	145 892	134 151	11 741
<i>Socio-Economic Support</i>	235 392	224 425	10 967	305 254	233 880	71 374
<i>Empowerment & Stakeholder Management</i>	102 899	70 070	32 829	156 242	147 564	8 678
Total	480 342	429 342	51 079	607 388	515 595	91 793

Table 1: Overview of Budget Allocation and Expenditure for 2021/22

Table 1 outlines that the Department spend less of its budget in the FY2021/22 (85%) than the 89% in the previous financial year. The main contributor to the underspending is Programme 2, which spent only 77% of its allocated budget. Some notable shifting and virements of funds included:

- In terms of economic classifications, R5.5 million was shifted from Goods and services to Compensation of employees.
- A virement of R13 million of the Adjusted appropriation was made away from Programme 1. This appears to be more than the 8% stipulated by National Treasury, in which case the approval of Parliament is required. This against the background that they state that the shifting and virements of funds was accounted for in line with Section 43 of PFMA and Treasury Regulations 6.3.1. It appears to be above the threshold of 8%, with a virement of 9.78%.

Quarterly spending patterns

During the 2021/22 financial year, the spending patterns from the second quarter has been as follows:

- The DMV received a total main appropriation of R654.4 million for the 2021/22 financial year. By the end of the **Second Quarter**, the Department had spent R168.5 million (25.8%) of its main appropriation. This was significantly lower than the projected R347

million expenditure that should have totalled 51.4% of the main appropriation at the end of the Second Quarter

- During the mid-year adjustment period, the DMV allocation was decreased from its main appropriation of R654.4 million to an adjusted appropriation of R607.4 million. Despite the decrease, spending by the DMV during the **3rd Quarter** remained much slower than planned
- By the end of the financial year (**Fourth Quarter** ending on 31 March 2022), the DMV managed to spend R515.6 million, or 84.9%, of its adjusted budget. This resulted in underspending of 15.1% for the 2021/22 financial year.

4.2 DMV Annual Performance

For the 2021/22 financial year, the Department planned to achieve 19 performance targets. Of the 19 targeted performance areas, nine (9) targets were achieved which constituted 47% overall achievement.

	FY 2019/20	FY 2020/21	FY 2021/22
Total targets set	16	15(18)	19
Targets achieved	8/16	6	9
Targets not achieved	8/16	9	10
Success rate	50%	40%	47%
Total Budget Spent (%)	73% (R477 205/R652 553)	89% (R429 324/480 342)	85% (R515 595/R607 388)

Table 2: Programme performance from 2019/20 to 2021/22

The spending of 85% of the budget versus an achievement of 47% of the set targets for the year is concerning as it means that 89% of the budget has been spent to achieve less than half of the set targets. While this can be measured against the success rate of 40% and an 89% spending in the previous financial year, the question arises whether value for money is being received.

4.3 Programmes: Budget Allocation and Expenditure and Performance for 2021/22

This section briefly highlights the budgetary overview of the three programmes of Vote 26, referring to the different sub-programmes, comparing its final appropriation to the actual expenditure and indicating whether there was an over or under expenditure.

4.3.1 Programme 1: Administration- Budget Allocation and Expenditure

Budget Allocation and Expenditure

	2020/21			2021/22		
	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>
Management	14 879 (12 469)	14 261 (12 469)	618 (0)	11 769	9 785	1 984
Corporate Service	66 857 (72 027)	66 370 (71 419)	487 (608)	67 237	61 183	6 054

Financial Administration	22 802 (22 211)	20 010 (22 211)	2 792 (-)	22 556	19 708	2 848
Internal Audit	11 069 (8 655)	9 404 (8 061)	1 665 (594)	11 107	10 858	249
Strategic Planning, Policy development and M&E	12 361 (11 660)	11 405 (10 349)	956 (1 311)	14 743	14 214	529
Office Accommodation	14 083 (13 563)	13 317 (13 562)	766 (1)	18 480	18 403	77
Total: Sub-programmes	142 051	134 767	7 284	145 892	134 152	11 741

Table 3: Budget allocation Programme 1 from 2021/20 to 2021/22

The R1.984 million underspending in the Corporate Services subprogramme should be explained against the background that, in the previous financial year, it underspent with only R618 000. Given the under-capacitation of the Internal Audit Function and that this subprogramme underspent with R1.665 million in the previous year, which decreased to R249 000 in the year under review, this development can be welcomed.

Programme 1: Administration - Programme performance

	FY2020/21	FY2021/22
Total targets set	4	5
Targets achieved	3	4
Targets not achieved	1	1
Success rate	75%	80%
Budget Spent	95% (R134 767/142 051)	90% (R134 152 /148 892)

Table 4: Programme 1 performance from 2019/200 to 2021/222

As shown above, the Administration programme had a total of 5 targets of which 4 have been achieved, leading to a success rate of 80% and this should be viewed against a spending rate of 90%. This performance reflects a marginal decline compared to the previous year when three of the four set targets were met with a spending rate of 95%.

Performance Indicator	Planned Target	Actual Achievement	Deviation	Comment
PPI 103: Approved ICT Strategy implemented (Phase 1 to 3)	Approved ICT Strategy (Phase 1 to 3).	Various explanations such as “Continued with User Acceptance testing and training of the Registration module”	Approval of the proposal took long and SITA could not allocate resources to FastTrack the IDMS project	The project charter approved. Other modules are also scheduled for analysis

Table 5: Target not met Programme 1: Administration

Various reasons are provided for the deviation from the target, but the essence is that an approved ICT system can assist to address many of the challenges the DMV is experiencing.

4.3.2. Programme 2: Socio- Economic Support

Budget Allocation and Expenditure

This is the main service delivery programme, and is supporting the delivery of benefits such as education, public transport, pension and housing.

<i>Socio-Economic Support SUB PROGRAMMES</i>	<i>2020/21</i>			<i>2021/22</i>		
	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>
Database and Benefits Management	8 174 (8 678)	8 004 (6 361)	170 (2 317)	15 978	8 918	7 060
Health care and wellness support	113 686 (124 705)	112 432 (124 702)	1 254 (3)	106 114	104 065	2 049
Socio economic support management	113 532 (203 389)	103 989 (203 597)	9 543 ((208))	183 162	120 897	62 265
Total For Subprogrammes	2325 392	224 425	10 967	305 254	233 880	71 374

Table 6: Budget allocation Programme 2 from 2021/20 to 2021/22

In contrast to the previous year, this is the worst performing programme of the DMV in both financial and performance measures. Given that this is the main service delivery programme, the fact that the socio-economic support management sub-programme underspent with more than R62 million, it is very concerning. This subprogramme is dedicated to support benefits such as education, public transport, pension and housing - but these annual targets have been missed, despite some being adjusted downward. The underspending of R7 million in the Database subprogramme against the background of the slow progress to capture and verify military veterans, even with the assistance of the Verification Panel, should be raised. The underspending of the healthcare and wellness support sub-programme similarly relates to benefits that are very much in demand by ageing military veterans.

Programme performance

	<i>FY2020/21</i>	<i>FY2021/22</i>
Total targets set	6	8
Targets achieved	2	2
Targets not achieved	4	6
Success rate	33.33%	25%
Budget Spent	95% (R134 767/142 051)	77% (R 233 880/R305 254)

Table 7: Programme 2 performance from 2019/200 to 2021/222

During the period under review, the Department targeted eight (8) performance indicators to deliver the socio-economic benefits to Military Veterans and their dependants. Of the eight (8) targeted indicators, two (2), or 25%, performance indicators were achieved.

Performance Indicator	Planned Target	Actual Achievement	Deviation	Comment
PPI 201: Number of Approved Non-Statutory Forces (NSF) received from the verification panel for inclusion in the Database	3 000	151	-2 849	3 005 files were assessed by the verification panel but only 151 applicants could be recommended for inclusion into the National Military Veterans Database.
Number of deserving military veterans provided with newly built houses per year	355	71	-284	Poor delivery of houses by DHS due to a variety of challenges
Number of Military Veterans participating in the pension benefit pilot project	200	Policy in draft and awaiting final Actuarial report	- 200	Policy in draft pending final actuarial report from appointed service provider and engagement the stakeholders.
Number of Military Veterans participating in Subsidized public Transport benefit pilot project	200	0	- 200	Policy is in draft and due to complexity of the public transport sector in the country, extensive data and information collection with stakeholder engagement is still required to assist in policy development and implementation thereof.
Number of Military Veterans with access to health care services	19 100	19 100	0	The target was achieved because this is a demand driven indicator.
Number of Military Veterans and dependents provided with Dedicated counselling services and treatment	500	488	- 22	Dedicated Counselling is demand driven as such 97% of the targets has been achieved.

Table 8: Targets not met Programme 2: Socio-economic Support

While the DMV indicates that only 2 of the 8 targets were met in this Programme, pages 42-47 of the Annual Report indicates that three targets were met, bringing their success rate to 37.5% up from the 20%, and the overall performance 47% from to 53%. The explanation that poor delivery of houses by DHS due to a variety of challenges, is noted. However, the underperformance in this regard is a continuing matter

4.3.3 Programme 3: Empowerment and Stakeholder Management

Budget Allocation and Expenditure

<i>Empowerment & Stakeholder Management Subprogrammes</i>	<i>2020/21</i>			<i>2021/22</i>		
	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>	<i>Final Appropriation</i>	<i>Actual expenditure</i>	<i>Variance</i>
Provincial Office and Stakeholders Relation	39 785 (55 968)	28 748 (36 002)	11 037 (19 966)	37 801	32 399	5 402
Empowerment and Skills Development	40 548 (73 2060)	27 488 (18 659)	13 060 (54 547)	95 520	95 251	269
Heritage, Memorial, Burial and Honours	22 566 (20 556)	13 834 (14 585)	8 732 (5 971)	22 921	19 914	3 007
Total: Subprogrammes	102 899	70 070	32 829	156 242	147 564	8 678

Table 9: Budget allocation Programme 3 from 20219/20 to 2021/22

This programme improved significantly on its underspending as it managed to increase spending from 68% in the previous financial year to 94% for the year under review, and the DMV should be commended in this regard. This should however be read against the background of the significant underspending in subprogrammes 1 and 3. The Heritage, Memorial, Burial and Honours subprogramme underspent with more than R3 million and it should be enquired what is being done to address this underspending. It is also noted with concern the underspending of R5.4 million in the Provincial Office and Stakeholders Relation subprogramme, especially given that it is responsible for provincial offices and that the Department does not have a footprint in all provinces to assist with access to DMV officials.

Programme performance

	<i>FY2020/21</i>	<i>FY2021/22</i>
Total targets set	5	6
Targets achieved	1	3
Targets not achieved	4	3
Success rate	20%	50%
Budget Spent	68% (R70 070/102 899)	94% (R 147 564/R156 242)

Table 10: Programme 3 performance from 2019/200 to 2021/222

During the period under review, the Department targeted six (6) performance indicators to deliver the socioeconomic benefits to Military Veterans and their dependants. Of the six (6)

targeted indicators, three (3) or 50% performance indicators were achieved against spending of 94% of the allocated budget.

Performance Indicator	Planned Target	Actual Achievement	Deviation	Comment
Number of memorial lectures coordinated for military veterans	10	5	-5	The nature of the roll-out of the benefit involves contact with clients in both walk-ins and outreach programs in the provinces and there were delays in coordinating. Lectures during 2021/22 financial year.
Number of Military Veterans provided with access to employment placement opportunities	30	0	-30	Currently the Unit has challenges of person power to execute the tasks
Number of Military Veterans memorial sites facilitated per year	3	0	-3	The Department depend on DPWI to make the implementation a success

Table 11: Targets not met Programme 3: Empowerment and Stakeholder Management

The underperformance on the memorial lectures coordinated for military veterans is of concern as the reasons for the delays are not explicitly provided in the Annual Report. The fact that there were no employment placement opportunities against the target of 30 is unclear as the reason provided namely “Currently the Unit has challenges of person power to execute the tasks” does not appear to be sufficient. The fact that the Department indicates that it is dependent on the DPWI to facilitate the number of memorial sites facilitated per year, should be questioned given the importance to adequately memorialise and maintain such sites in honour of our military veterans. This poor performing programme is responsible for, among other things, the management of provincial offices, which have been a problematic area for the Department for years. This need to be addressed as these offices are crucial to improve the national foot print of the DMV and access for military veterans.

4.2 Financial statements

Unauthorised expenditure: Similar to 2020/21, the Department did not incur unauthorised expenditure during the year under review. The Department should be commended in this regard.

Fruitless; wasteful and Irregular expenditure the amounts

The Department did incur Fruitless and Wasteful expenditure of R91 000 for the 2021/22 financial year. The Auditor General of South Africa (AGSA) states that it was unable to obtain

sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 38 (1)(h)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

Concern is expressed about the Irregular, Fruitless and wasteful expenditure and it must be enquired what measures are being taken to prevent these expenditures and especially whether Consequence Management has been implemented in these cases. This against the AGSA's finding that investigations into fruitless and wasteful expenditure were not performed.

Contingent liabilities and contingent assets: The Department has incurred Contingent Liabilities of 345 505 000 for the year under review against R235 558 000 in the previous financial year. The Contingent assets are listed as R1 899 000 an increase due to the addition of the SITA ICT Training to the value of R461 000, from the previous year's R1.438 million which related to the Bakoena Entertainment and Events breach of contract for R745 000 and R693 000 by Guatayatam also for breach of contract. The AGSA has previously expressed its concern regarding the Contingent liabilities and it again expressed this opinion, as no provision has been made in the financial statements for these liabilities.

4.3 Findings of the Auditor General of South Africa

The AGSA audited the financial statements of the Department for 2021/22, and the DMV received an unqualified audit outcome. This is the fifth consecutive unqualified audit outcome.

The following *Emphasis of Matters* were identified:

Material uncertainty relating to the future outcome of exceptional litigation. Similar to the previous year and as indicated above, the AGSA has concerns regarding these lawsuits and the impact thereof, should the litigants be successful, and this is a repeat finding for the last four years.

Payables exceeding voted funds to be surrendered

The financial statements refer to payables of R117 million that exceeded the payment term of 30 days, as required by Treasury Regulation 8.2.3. This amount, in turn, exceeded the R92 million of voted funds to be surrendered by R25 million as per the statement of financial performance. The amount of R25 million would therefore have constituted unauthorised expenditure had the amounts due been paid in time.

Report on the audit of the annual performance report.

The AGSA evaluated the usefulness and reliability of the reported performance information, for the following selected programme for the year ended 31 March 2022. The material findings on the usefulness and reliability of the performance information of the selected programmes are as follows:

- ***Programme 2: Socio-Economic Support.***

The AGSA was unable to further confirm the reported achievement by alternative means. Consequently, the AGSA was unable to determine whether any further adjustments were required to the following reported achievements:

PPI 201: Number of approved non-statutory forces (NSF) received from the verification panel for inclusion in the database.

The reported achievement of 151 was reported against a planned target of 3 000 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement, while in other instances the AGSA was unable to obtain sufficient appropriate audit evidence. This was due to lack of relevant evidence to confirm the eligibility of the reported number of military veterans.

PPI 202: Number of military veterans provided with newly built houses per year

The reported achievement of 71 was reported against a planned target of 355 in the annual performance report; however, the supporting documents materially differed from the reported achievement.

PPI 206: Number of bursaries provided to military veterans and their dependants per year

The achievement of 3 711 was reported against a target of 3 500 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement, while in other instances the AGSA was unable to obtain sufficient appropriate audit evidence. This was due to insufficient evidence and the beneficiaries who were reported in the incorrect financial year.

These findings are similar to those of the previous years and it speak to the performance information provided not being reliable. There appears to be basic mistakes that cannot be blamed on a lack of personnel or capacity, but rather poor oversight and a lack of effective leadership. The continuing challenge to capture and verify military veterans for inclusion on the database is concerning given that even the Verification Panel did not provide relevant evidence to confirm the eligibility of the reported number of military veterans. The AGSA also disputed the accuracy of the number of bursaries provided as the supporting evidence provided materially differed from the reported achievement. The lack of a properly staffed Internal Audit Division and the fact that its head is the acting CFO, are matters that the DMV need to address speedily. This should assist in an increased focus on the Audit Action Plan to address these matters.

Other matters identified by the AGSA:

- **Achievement of planned targets**

This should be considered in the above context of the material findings on the usefulness and reliability of the reported performance information

- **Adjustment of material misstatements**

The AGSA identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the Programme 2: Socio-economic support. Those that were not corrected are reported above.

- **Consequence management**

The AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against some officials who had incurred and/or permitted irregular, fruitless and wasteful expenditure in prior years, as required by the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

- **Internal control deficiencies**

Similar to previous years, the AGSA reported that leadership did not exercise adequate oversight of financial reporting, performance reporting, compliance with applicable legislation and related internal controls. Action plans to address prior year findings were not effective, resulting in repeat findings in the audit of predetermined objectives. Management did not implement effective controls to ensure that information contained in performance reports was supported by relevant evidence before submission for audit. This was mainly as a result of a lack of proper performance and record management systems.

- **Other reports**

The Directorate for Priority Crime Investigation (the Hawks) and the Special Investigations Unit (SIU) are conducting investigations into allegations of non-compliance with procurement and contract management regulations within the department. The investigations are still in progress.

5. GOVERNANCE

5.1 Effectiveness of Internal Control

The Audit Committee reports that their review of the internal audit work revealed certain weaknesses which were then raised with the Department. They state that a lot more needs to be done to stabilise the control environment at DMV. There were instances of non-compliance and internal control deficiencies, such as the following:

- Underperformance on the delivery of benefits to military veterans as well as a lack of automated systems to improve the accuracy and completeness of the reported performance information;
- Inadequately designed asset management policy framework, incomplete asset register and other discrepancies identified in the management of assets.
- Continued use of expired contracts resulting in perpetual irregular expenditure.
- Demand and/or procurement plans not reviewed to cater for Covid-19 emergency procurement.

They further state that the Department needs to build a strong control environment by addressing all the control deficiencies. Although an improvement was noticed in the quarterly reporting to National Treasury, greater improvement of performance reports is still required especially in the service delivery branches. Given that the above is the precise wording in the Annual Report of 2020/21, it raised questions on what the DMV has done to address all these instances of non-compliance and internal control deficiencies. It is especially the “Continued use of expired contracts resulting in perpetual irregular expenditure” and the “incomplete asset register” that were noted.

6. HUMAN RESOURCES

6.1 Overview and vacancies

Overview and vacancies

The number of posts on the establishment of the DMV is 169. The total number of posts filled as at 31st March 2022 was 128. A total number of 48 posts were additional to the fixed establishment as at the 31 March 2022. The Department has maintained a vacancy rate of 24% by the end of the reporting period. Finalisation in realignment of the organisational structure is underway. The Department has appointed a permanent Director General (DG) with effect from June 2021; two directors and two deputy directors were also appointed in January 2022. The Department indicates that one of the reason for not filling vacancies within six months was because of the change of Ministers in the Department, and the new Ministry advised for the re-advertisement of posts.

Programme	No of posts approved	No of posts filled	Vacancy rate	No of additional employees to establishment
Administration	103	76	13%	25
Socio-economic Support	20	14	30%	18
Empowerment and Stakeholder management	46	38	14%	5
Total	169	128	24%	48

Table 12 – Number posts and vacancies

The overall vacancy rate of 24% is an improvement of the previous year's 27%. However, the 30% vacancy in the main service delivery programme, remains a concern as in previous years. It is especially the 30% vacancy rate in Programme 2 the main delivery programme, that is concerning. Given that one of the reason for not filling post within 6 months was the appointment of a new Minister, it is hoped that this has been cleared to address the vacancies with the urgency it requires. This issue is also aligned to the process to change the Organisational Structure of the Department and it is hoped that this will receive further impetus in the current financial year.

6.2 Misconduct; disciplinary hearings; performance agreements and rewards and suspensions

The Annual Report shows that there were 3 misconduct cases, which led to a correctional counselling; a verbal warning and a written warning. There were 29 grievances of which 8 were resolved and 21 remained unresolved. Only one disciplinary action was taken against an employee which resulted in a written warning. It is also reported that 20 out of 21 SMS members concluded their performance agreements, while the one senior managers did not it as he had challenges with his supervisor for not affording him the opportunity to meet and discuss his performance agreement and ultimately its signing. It is reported that 53 employees received performance rewards to the amount of R 457 972 at an average cost of R 8 641 per employee. It is further reported that four members have been suspended for a 165 average days at a cost of R3 778 958.

The fact that there were 29 grievances of which only 8 were resolved and 21 remained unresolved is problematic. While it is good policy to reward employees for excellent work, this should be viewed against the Department's poor performance where they only achieved a success rate of 47% with an underspending of 15% of the allocated budget. The suspension of 4 members at a cost of R3 778 958. 91 is an issue that needs to be addressed urgently, given the Department's vacancy rate and especially its poor performance and underspending.

7. COMMITTEE OBSERVATIONS: DEPARTMENT OF MILITARY VETERANS

During deliberations on the 2021/22 DMV Annual Report, the Committee made the following observations:

- a. One of the main observations of the Committee, is its serious concern about the continuing poor performance and underspending of the Department. The Department spend 78.9% of their main appropriation, or 84.9%, against the adjusted allocation and only achieved 47%, or 9 out the 19, performance targets for the year. Against this background it can be questioned whether Department delivers value for money and whether the persistent poor performance and underspending will not bring existential questions to the fore.
- b. The Committee was again critical on the slow process to fill vacancies, especially senior posts, which was further exacerbated by the suspension of four senior officials, given the interrelatedness between the number of vacancies and the kind of service delivery.
- c. Committee Members commented on the lack of progress to pay pensions to military veterans, against the background that an undertaking was given that it would started to roll out this benefit from 1 April 2022.
- d. The absence of an Audit Committee Report in the Annual Report due to resignations and the subsequent inactivity of this Committee, was lamented by the PCODMV who stressed the importance of this entity as an early warning system.
- e. Similarly, the Committee expressed its concern that members of the Appeal Board have not been appointed, even though the Committee has previously implored the Department to expedite these appointments, given its important role to serve as an arbiter in cases concerning military veterans.
- f. While welcoming the Court's decision in favour of the Department on the Zeal case, which relates to a claim of R198 million, the Committee enquired why it took eight years to conclude this contingent liability case. The Committee however remained concerned about the contingent liabilities and contingent assets.
- g. The Department indicated that 19 military veterans were registered on the Department of Employment and Labour's database for employment opportunities, but Members wanted to know whether this has actually translated into employment.
- h. The Committee enquired whether municipalities could not be approached for assistance in the case where the Verification Panel could not locate military veterans. This against the background of the Intergovernmental Framework and because ward councillors can also assist in this regard.
- i. It was requested that the Department provide the Committee with the number of applications by military veterans which were not responded to within the legislated

30 days. This was based on the numerous complaints received by Members of Parliament from military veterans about the lack of responses from the Department.

- j. The Committee noted with concern the difference in opinion between the Deputy Minister and the Director-General.
- k. The Committee asked for information about the investigations by the Directorate for Priority Crime Investigation (Hawks) and the Special Investigations Unit into allegations of non-compliance with procurement and contract management. It noted with concern that the DMV did not know why these investigations were instituted and who requested it.

8. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2021/22 DMV Annual Report, the Committee makes the following recommendations:

- a. The Committee recommends that the DMV should urgently address the following issues to assist the Department to address its perennial underspending and poor performance:
 - The high rate of vacancies, especially at senior management level.
 - The Internal Audit capacitation and functioning.
 - The appointment of the Audit Committee.
 - The suspension of especially four senior officials.
 - Finalising the DMV database.
- b. The Committee emphasises that the budget is linked to performance targets and thus, if there is poor performance, it has a direct bearing on how effective the Department is. Therefore, the DMV should prioritise addressing the continued poor delivery of benefits.
- c. The Committee recommends quarterly feedback on the progress of the payment of pensions to military veterans, as very clear legitimate expectations were created by the Department in conjunction with the Presidential Task Team on Military Veterans.
- d. It is recommended that the Audit Committee be appointed as a matter of urgency, and the Department should report on progress in this regard at the next meeting of the DMV with the PCODMV.
- e. The Committee recommends that a progress report on the appointment of the Appeal Board and its members be provided at the next meeting, given the importance of this entity to address complaints by military veterans.
- f. The Committee recommends that the Department should seriously engage with its contingent liabilities and assets and the risks that it poses, and not just view it something that are unlikely to come to pass.
- g. The Department should go one step further than just registering military veterans on the Department of Employment and Labour's database, and should actively try and assist them to source employment.
- h. The Committee recommends that municipalities should be approached for assistance in cases where the Verification Panel cannot not locate military veterans, as it is not enough to simply say that they cannot be located when all avenues have not been explored.

- i. The Committee recommends that the Department should provide it with the number of applications by military veterans who were not responded to within the legislated 30 days, at its next meeting.
- j. The Committee recommends that the difference in opinion between the Deputy Minister and the Director-General be resolved as soon as possible to ensure seamless cooperation between the two offices, as well as to enhance the Department's delivery capabilities. The Minister and Deputy Minister are requested to report back the Committee in this regard before the end of 2022.
- k. The Committee wants the Department to present it with more information about the investigations by the Directorate for Priority Crime Investigation (Hawks) and the Special Investigations Unit into allegations of non-compliance with procurement and contract management. This information should be provided in writing no later than 15 December 2022.

Report to be considered.

3. BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2021/22 ANNUAL REPORT OF ARMSCOR AND THE CASTLE CONTROL BOARD (CCB), DATED 26 OCTOBER 2022.

This Report consists of two parts, with Part A dealing with the Armaments Corporation of South Africa (ARMSCOR) and Part B dealing with the Castle Control Board (CCB).

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2021/22 annual reports of the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), on 12 and 19 October 2022 respectively, reports as follows:

1. INTRODUCTION

1.1 Mandate of the Committee

The Portfolio Committee on Defence and Military Veterans (PCODMV) is mandated to oversee the Department of Defence and Military Veterans (DODMV) and its entities – namely the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), to ensure that the entities fulfil their mandates through the monitoring of the implementation of legislation and adherence to policies. These policy guidelines assist the Committee in its oversight activities.

1.2 Purpose of the BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (Act 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:

- g) an assessment of the department's service delivery performance given available resources;
- h) an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
- i) 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 comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

PART A: THE ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)

1. INTRODUCTION

1.1 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

2.1 State of the Nation Addresses (SONA):

President Ramaphosa delivered his State of the Nation Address (SONA) on 11 February 2021. No direct reference was made to Armscor, but some elements of the 2021 SONA have indirect bearing on the functions of Armscor. Specifically, the need for local production and the purchasing of locally made products given Armscor's role in the procurement value chain. The President placed significant emphasis on economic recovery and efforts to boost economic growth. Specific mention was made of sector master-plans aimed at growing specific sectors of the economy. While no specific mention was made of the domestic defence industry, it is nonetheless an important industry that has the potential to aid economic growth. Two key approaches are necessary to unlock the potential for the defence industry to contribute to economic growth. First, a clear acquisition plan for the DOD is required that takes into account current fiscal constraints. This will aid the domestic defence industry in its planning. The President also noted the need for procurement from women-owned enterprises, which can be taken into account in the DOD acquisition plan. Second, given domestic fiscal constraints, the defence industry is relying heavily on exports for its survival and, as such, requires state support to maximise export efforts. In this regard, the President also referred to the African Continental Free Trade Area, which came into operation on 1 January 2021 and can potentially offer further export opportunities to the South African defence industry. Finally, the DOD also aims to strengthen local small and medium enterprises.

2.2 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 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.

2.3 The Medium Term Strategic Framework (2019 - 2024)

The Governmental MTSF Outcomes, to which the DOD will contribute, is supported by Armscor in the following ways:

- *MTSF Priority 1: A Capable, ethical and developmental state.* Armscor will contribute by ensuring improved governance and accountability through compliance to regulatory frameworks, continuing to fight corruption and fraud through internal control measures, to support other government departments and its people in pursuit of South Africa's developmental agenda.
- *MTSF Priority 2: Economic transformation and job creation.* Armscor will contribute through sustainable acquisition of weapons systems and local procurement of goods and services.
- *MTSF Priority 3: Education skills and health.* Armscor will contribute through the provision of internal and external higher education, skills development opportunities and creating foreign learning opportunities.
- *MTSF Priority 4: Consolidating the social wage through reliable and basic services.* Armscor will contribute by promoting peaceful and inclusive societies for sustainable development.
- *MTSF Priority 6: Social cohesion and saver communities.* Armscor will contribute through its contribution to border safeguarding, cooperation with the South African Police Service (SAPS) and support to other Government Departments.
- *MTSF Priority 7: A better Africa and a better world.* Armscor will contribute by supporting the DOD's participation in external operations in support of UN and AU peace missions and other regional peace initiatives.

3. 2020/21 BRRR RECOMMENDATIONS

During the BRRR process, the PCODMV identified the following areas for monitoring by the Committee:

- The Committee questions the payment of increases and bonuses to the CEO and CFO. On 8 June 2020, Armscor made a presentation to the Committee in which it notes that, as a means to reduce the impact of the Covid-19 pandemic, it is considering not to pay salary increases and performance remuneration which was expected to result in R89 million savings. The Armscor Board should therefore provide the Committee with written feedback, before the end of January 2022, as to the reasons for the payment of salary increases and bonuses amid significant fiscal constraints in 2020/21.
- Armscor previously indicated to the Committee that Armscor DDS concluded a partnership agreement with Defence Equipment Sales Authority (DESA) of the UK Ministry of Defence to market and sell its surplus stock on the continent. Armscor should provide the Committee with an update, before the end of January 2022, on progress in this regard and whether this has resulted in any revenue generation for the entity.
- The Committee congratulates the Armscor Business Unit in generating R16.9 million additional revenues for the entity amid Covid-19 constraints. The various successes in engagements with international clients is particularly commendable. Given that international travel has largely recommenced, more business opportunities are likely to be explored and the Committee wishes to see a sustained increased in funds generated by the Business Unit.

- While the midlife upgrades of SA Navy platforms are not in Armscor's control, the Committee expresses its concern around the fact that all funding for the projects have been surrendered, implying that no mid-life upgrade will take place. To this extent, the Committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy's Frigate and Submarine fleet in the coming years.
- The Committee welcomes the consequence management implemented by the Dockyard with several employees being suspended or charged with cases related to fraud and theft. Armscor should provide the Committee with a written follow-up letter on the outcome of the disciplinary action taken against four people charged in relation to fraud procurement.
- Given the urgent need for revenue generation by Armscor, the delays in the disposal of decommissioned vessels is a concern to the Committee. Armscor should, before the end of January 2022, provide the Committee with a written update on plans to speed up the process and what the additional revenue-generation plans for the Dockyard are in 2022/23.
- The Department of Defence and Armscor should, before the end of January 2022, jointly provide the Committee with a written response as to how the current shortfall of R184 million for Project Biro will be funded.
- Armscor is encouraged to speed up the multiparty negotiations to revive the commercialisation of the A-Darter missiles and present the way forward in its 2022/23 Performance Plan.
- It is evident that the continued delay and Project Hoefyster has now come to a point where any future viability of the project is placed in significant doubt, especially since Denel will not be able to deliver and that some of the technology has become obsolete. The fact that the Armament Acquisition Council has not published a decision on the matter since 2019, following a recommendation from Armscor, is of further concern. The Committee requests that, before the end of January 2022, the Minister of Defence and the Armament Acquisition Council submit in writing to the Committee the reasons for the delay in a decision on the future of Project Hoefyster, by when a decision can be expected and what the likely way forward is.
- The Committee recommends that Armscor provides a breakdown of its Human Resources component in terms of race, gender and age-group in future Annual Reports.

4. OVERVIEW OF THE 2021/22 ARMSCOR PERFORMANCE

In 2021/22, Armscor continued to operate under financial pressure, as is the broader defence industry, due to funding constraints in the defence environment. Of particular concern is the stagnating defence allocation and the misalignment of defence spending towards Compensation of Employees, resulting in limited acquisitions for the SANDF and therefore reducing acquisition work for Armscor over the MTEF.

The situation at Armscor is further complicated by the demise of Denel, since Denel contracts represent approximately 45% of Armscor's total acquisition portfolio for the DOD. As such, Armscor continuously needs to diversify its income stream to generate additional income.

4.1 Acquisitions

The acquisition responsibility of Armscor can be broadly classified into two main categories being, capital acquisition (funded by the DOD's Strategic 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 2021/22 financial year, Armscor managed and executed contracts worth R12.409 billion, including the following:

- Maintenance and support contracts worth R3.960 billion (compared to R4.780 billion in 2020/21).
- Capital acquisition contracts managed worth R8.464 billion (compared to R7.628 billion in 2020/21).

The Armscor 2021/22 Annual Report also noted the continued decline of capital projects, impacting on its work. It was noted that “the funding allocation for projects on the Special Defence Account (SDA) (capital budget) has been continually decreasing over the past four years. During the reporting period, there were only 6 Capital projects with a funding allocation for the year (down from 15 during the previous year and 39 in 2019/20), although a total of 24 Capital projects were being executed due to funds being carried over from the previous financial year. Only projects that had already been contracted or partially contracted for execution were funded. As these projects are completed, the number of projects being executed will continue to decline with no additional allocation currently visible from the Special Defence Account. This decrease in the number of funded projects on the Special Defence Account will have a significant impact on Armscor, as it impacts not only on workload of experienced Programme Managers, but also on Armscor's ability to provide exposure and experience to Programme Managers with respect to managing of complex projects.”

A number of projects or sub-projects were successfully completed and new capabilities were delivered to, and taken into operation by, the SANDF:

Hydrographic vessel procurement (Project Hotel):

Construction was set to start in 2018 and 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. At the end of 2021/22, construction of the hull and super structure of the main Survey Vessel was completed and installation of equipment on board had commenced. All Survey Motor Boats (3 in total that complements the main large Survey Vessel) have been completed and the first Boat was handed over to the SA Navy on 31 March 2022 and the preparation for Operational Tests and Evaluation has commenced.

Inshore Patrol Vessels (IPVs) (Project Biro):

Previous Annual Reports noted that, by December 2017, the contract was awarded for the construction of the three IPVs. The contract was awarded to Cape-Town Based Damen Shipyards. Due to restrictions caused by the Covid-19 pandemic, the construction phases were delayed by a few months. By the end of 2021/22, the status of the three vessels were as follows:

- The first vessel's commissioning and acceptance trials were completed during the 2021/22 period and the vessel was being prepared for delivery.
- The construction and fitment of the second vessel was approximately 70% complete.

- The keel of the third vessel had been laid and the construction and fitment thereof was approximately 20% complete, with all major ship's equipment already delivered to the shipyard.

Airborne systems: Short-range air-to-air missiles:

This project entails the development of the A-Darter short-range air-to-air missile, co-funded by the Brazilian Air Force and the SA Air Force. The development phase of the missile system was completed by Denel. A contract was then placed with Denel in March 2015 for the industrialisation and subsequent production of A-Darter missiles, but this has not been achieved due to constraints at Denel. Armscor is currently evaluating alternative methods of completing the required missiles.

Project Hoefyster:

The PCODMV is well aware of the significant delays on Project Hoefyster and has engaged Armscor on this matter several times. While the Annual Report for 2021/22 reports on continued delays during the reporting year, the PCODMV engaged with Armscor on 24 August 2022 to follow up on subsequent developments. During this engagement, there was general agreement between Denel and Armscor on the completion of Phase 1 of Project Hoefyster (the Development Phase). Other conditions were also set which requires follow up by the PCODMV:

- End-User agreement on waiving of non-compliance to identified specifications
- Suppliers willing to supply required subsystems and components.
- Availability of sufficient working capital to continue with the project.
- Denel succeeding with in-sourcing of required personnel

Furthermore, Armscor has requested that the SA Army requirement for the continuation of Phase 2 (industrialisation and production) be reviewed. Armscor noted to the PCODMV on 24 August 2022 that it will prepare a number of options with regards to the continuation of the project, while taking due cognisance of the current availability of funds.

Ground Based Air Defence System (GBADS):

The GBADS for the SA Army was delivered to the Air Defence Artillery Formation in 2020/21 and it provided for the refurbishing of the radar-guided system 35mm guns of the Air Defence Artillery Formation. The second phase of the GBADS consist of two steps. Step 1 includes the upgrade of the Gun Fire Control System of the 35mm Anti-Aircraft guns and was completed in 2021/22. Step 2 includes the inclusion of the Missile Short Range Air Defence system capability but is currently not funded.

Tactical Communications System:

This system will make provision for all tactical communication requirements for all Arms of Service and will ensure interoperability between all users. Industrialisation of the four major sub-systems has been completed. Design Test and Evaluation commenced and all the field testing was completed during October 2021. The Operational Test and Evaluation of the complete system is expected to commence during June 2022 with completion scheduled for July 2022.

4.2 Defence Industrial Participation

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. In 2021/22, similar to the preceding year, Armscor managed 14 such agreements. As in previous years, 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 R23.332 billion compared to R23.326 billion in 2020/21. Outstanding DIP obligations are as follows:

- DIP agreements related to the Strategic Defence Packages (1): R0
- DIP agreements related to ongoing defence projects (13): R456 million
- DIP agreements related to the SAPS (1): R21 million

Note: The main contractor (Denel) for Project Hoefyster experienced financial challenges and as a result, was unable to fully discharge its pending DIP obligation within the specified period. Armscor's Board of Directors subsequently approved that penalties be levied on Denel in terms of the DIP Agreement concluded between the parties.

4.3 Defence Materiel disposal

Armscor also manages the disposal of defence equipment for the DOD. Armscor's Defence Disposal Solutions (DDS) mandate provides for the disposal of excess and obsolete defence matériel on behalf of the DOD. Defence matériel to be disposed includes items such as ammunition, aircraft, spares, vessels, and land-and/or air-based equipment. Disposal of the defence matériel is carried out in accordance with the requirements of the DOD and regulatory authorities such as the National Conventional Arms Control Committee (NCACC) and the National Non-Proliferation Council. The value of disposal orders concluded by Armscor in 2021/22 was not disclosed in the Annual Report.

4.4 Research and Development

The bulk of research and development 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 local and international clients. Several international and domestic clients perform tests at the facility. A continuous challenge for Alkantpan is the lack of support of critical mission equipment by Denel as the Original Equipment Manufacturer due to Denel's financial situation. Alkantpan is also in need of equipment upgrades, such as the requirement to procure a flight follower to increase its capability and to attract more clients.

Hazmat produces respiratory equipment for military and commercial purposes. The demand for military respiratory products diminished and Hazmat successfully transformed the business from only supplying the DOD with Chemical and Biological Warfare filters to a range of commercial Personal Protective Equipment products, which are sold to the safety industry. In 2021/22, Hazmat exceeded its budgeted sales with approximately 11% and achieved annual sales of R15.4 million. This is, however, slightly lower than sales of R17 million in 2020/21.

Gerotek Test Facilities was established to meet South Africa's needs to test defence-related products and to maintain key facilities, equipment, capabilities and technologies for that

purpose. In 2021/22, Gerotek continued to be severely affected by the Covid-19 pandemic as international and local clients cancelled events at the facility. The Annual Report notes losses of R14 million due to cancelled events and projects at Gerotek, in addition to losses of R11 million in the preceding year.

Protechnik Laboratories focuses on chemical and biological defence. Protechnik's recent operations continue to revolve around the Covid-19 pandemic as it designed, tested and evaluated hand sanitiser and surface disinfectant formulations with adherence to guidelines from the World Health Organisation. The sanitisers are currently being tested by the South African Bureau of Standards and will soon be available commercially. The 2021/22 Annual report did not indicate specific income levels from sales generated.

Ergonomics technologies focuses on integrating ergonomics into the SANDF. The 2021/22 Annual Report highlights include:

- A usability study on the Virtual Reality equipment and software.
- Establishing a noise laboratory that assist in the selection of SA Air Force pilots.

Flamengro: In 2021/22, Armscor continued investment into Flamengro's state-of-the-art test facility for the testing of specialist materials, sensor calibration, blast wave testing, and impact testing for armour was commissioned. In addition, continuation of the *ramjet* technology demonstrator on the 76mm calibre projectile, took place. The project aimed at increasing the projectile's range, was successfully designed, developed and tested.

Armour Development conducts defensive and reactive armour development and is funded by the Research and Development Board. During the reporting period, all significant milestones on armour protection that could be used for current and future armour systems for the DOD were achieved and completed. In 2021/22 it was also reported that there has been renewed interest in the new generation body armour package developed by Armour Development for use by the SANDF.

The Institute for Maritime Technology (IMT) provides techno-military expertise to support naval decision-making. The IMT is involved in various programmes which continued in 2021/22:

- Establishing a Situational Awareness Centre at Naval Base Durban to provide the SA Navy with a capability to monitor the harbour, ocean and key point facilities in Durban.
- Developing a Maritime Domain Awareness system that provides the SA Navy with a recognised maritime picture of the South African coastal area (handed over in March 2021). In 2021/22, the handing over of the system to the SA Navy continued.
- Development of the Ultrasonic Broken Rail Detector, which has significant commercial potential. Previous Annual Reports noted that the system was tested in India, but no further mention has since been made regarding any successful international sales. Transnet Freight Rail is one of the current clients utilising the system.

4.5 The Armscor Dockyard

The Armscor Dockyard serves as the primary maintenance supplier to the SA Navy. The Armscor Dockyard's performance is based on a service level agreement between the SA Navy and Armscor.

In 2021/22, the Dockyard met all its obligations and performances and all projects were delivered within the mutually agreed milestones. During the year, unplanned work tasks allocated to Dockyard increased by more than 35% compared to the previous financial periods.

Updates on the maintenance of specific classes of vessels include:

Submarines:

- *SAS Charlotte Maxeke:* Previously it was reported that additional funding to complete the refit of the boat by end of calendar year 2023 has been made available by the SA Navy. Contracting of local industry to supply additional supplementary spares has been completed and was expected to be advertised by the end of May 2022.
- *SAS Manthathisi:* Maintenance of the vessel was scheduled for completion at the end of January 2022, but due to unforeseen challenges the maintenance period was extended to the end of May 2022. The Dockyard notes that: Long lead times for critical spares delivery remains a challenge.

Frigates:

- *SAS Amatola:* The vessel is undergoing repairs and maintenance that was scheduled to be completed by 20 September 2022. The risk identified on the project is mainly the availability of spares.

Hydrographic vessel:

- *SAS Protea:* by the end of 2021/22, the Dockyard was busy with refurbishing of hull, underwater valve repairs, and tank surveys. Repair work was expected to be completed as required.

5. HUMAN CAPITAL MANAGEMENT

At the end of 2021/22, Armscor, including the Armscor Dockyard, had a staff complement of 1 375, which is significantly lower than the staff complement of 1 477 by the end of 2020/21 (a 7% reduction in staff). The decrease in staff total is mostly due to employees taking up the offer for Voluntary Severance Packages and employees reaching retirement age. A total of 110 staff members made use of Voluntary Severance Packages.

In terms of Employment Equity, 87.05% of the Armscor Human Resources contingent is African, Coloured and Indian, which is an increase from 83.48% in 2020/21. The 2020/21 Annual Report further indicates that 40.0% of employees are female, which also represents an increase from the 39.20% in the preceding year. Armscor's Employment Equity Plan's target for "black representation" has accordingly been achieved.

In terms of the Human Resources turnover rate, Armscor had 36 staff terminations (resignations and dismissals) in 2021/22. This was mostly in the 'middle management' (15) and 'skilled' (11) sectors of employees. This may raise a concern about skills retention within the organisation. However, Armscor has a scarce-skills mentor-mentee programme which had 62 mentees under 'training' in 2021/22.

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:

- *Bursaries.* Armscor sponsored 29 students with bursaries to study at different institutions, of which the majority were in engineering and science. This is slightly lower than in 2020/21, when 34 bursaries were awarded.
- Defence Engineering and Science University Programme (DESUP). The number of DESUP students for 2021/22 was not clearly indicated in the Annual Report.
- Talent Development Programme. For 2021/22, 31 candidates participated in this programme, which is lower than the 42 who participated in the preceding year.

6. PERFORMANCE OVERVIEW

Armscor has two categories of performance measurement namely:

- *Performance against the Service Level Agreement Outputs.* (12 of 14 targets set for 2021/22 achieved [85.7% targets achieved]).
- *Performance against Group Strategic Outputs.* (14 of 19 targets set for 2021/22 achieved [73.7% targets achieved], while one target presented no opportunity for achievement in 2021/22).

The table below highlights the targets *not* achieved or only partially achieved.

Selected Key Performance Indicators not achieved/partially achieved by Armscor in 2021/22

Objective	KPI	Goal	Achievement	Comments
<i>Performance against the Service Level Agreement Outputs</i>				
Dockyard	Percentage of contractual milestones executed	90%	82%	Target not achieved Major contributing factors were, acceptance and/or approval delay, awaiting other repair organisations and insufficient spares.
Dockyard	Percentage of compliance to project finance.	90%	50%	Target not achieved An invoice amounting to R3,9m could not be claimed from the Financial Authority due to the closure of the payment system from the DOD.
<i>Performance against Group Strategic Outputs</i>				
Infrastructure renewal	Appoint an Enterprise Resource Planning Service Provider	31 May 2021	-	Target not achieved Request for Bid completed and Board approved on 1 December 2021, subject to 30% subcontracting issue

Objective	KPI	Goal	Achievement	Comments
<i>Performance against the Service Level Agreement Outputs</i>				
				to be clarified with National Treasury. Armscor considering legal opinion.
Infrastructure renewal	Implementation of the approved application system renewal plan.	80%	0%	Target not achieved Only the payroll solution was implemented. (Target was also not achieved in 2019/20, nor 2020/21)
Infrastructure renewal	Implement IT infrastructure Renewal	31 March 2022 17 March 2022	17 March 2022	Target partially achieved The submission for order placement for the United Communication System (UCS) was approved by the Board on 17 March 2022.
Infrastructure renewal	Improve Information Security: 80% Implementation of the approved security architecture plan.	30 June 2021	1 December 2021	Target achieved late Cybersecurity Assessment, Senior Management positions have been filled, Cybersecurity Governance documents have been improved.
Transformation of corporation	Total number of employees with disabilities	28	23	Target not achieved

7. FINANCIAL STATEMENTS AND KEY NOTES FROM THE AUDITOR-GENERAL

The total comprehensive income of the Group continued to decrease in recent years, as follows:

- 2019/20: A surplus of R179.5 million
- 2020/21: A surplus of R124.3 million
- 2021/22: A surplus of R12.5 million.

Revenue generated is largely dependent on a state grant, but comprises the following categories in the table below. The table reflects the decrease in income from the sale of goods and services as well as a decreased income on interest and other income.

Revenue category	2019/20	2020/21	2021/22
Sale of goods and services	R389.6 million	R301.8 million	R274.4 million
Government grants	R1.176 billion	R1.113 billion	R1.257 billion
Interest	R104.7 million	R89.1 million	R86.2 million
Rental	R68 million	R71.4 million	R52.7 million
Other income	R22 million	R15.1 million	R23.7 million

The following additional financial matters should also be noted:

- The amount “Paid to Suppliers for materials and services” increased from R227.7 million in 2020/21 to R354.0 million in 2021/22.
- Employee-related costs increased from R1.123 billion in 2020/21 to R1.2 billion in 2021/22. This constitutes 89% of Armscor’s expenditure, up from 82% in the preceding year.
- The detailed financial statements note that the gain on disposal of assets and liabilities increased from R1.2 million in 2020/21 to R6.6 million in 2021/22.
- The cost of sales increased from R114.4 million in 2020/21 to R127.1 million in 2021/22. The cost of sales increased, despite the sale of goods and services being lower than in the previous year.

Payment to the executive directors:

- Payment to the executive director positions (CEO and CFO) *decreased* from R8.285 million in 2020/21 to R8.255 million in 2021/22.
- The main contributor to the decreased payment to executive directors relates to a reduced payment for ‘other benefits’ from R1.489 million in 2020/21 to R1.387 million in 2021/22. *Note: ‘Other benefits’ include bonus (13th cheque), performance related payments and leave capitalisation.’*

Payment to non-executive directors:

- Fees and Committee remuneration to non-executive directors increased significantly from R2.706 million in 2020/21 to R4.231 million in 2021/22.

Payment to executive committee members:

- Payment to executive committee members decreased from R20.2 million in 2020/21 to R17.6 million in 2021/22.

Fruitless, wasteful and irregular expenditure

In 2021/21, fruitless and wasteful expenditure amounting to R125 000 was incurred, which is much higher than the R6000 incurred in 2020/21. The expenditure was as a result of penalties charged (R7 000) and expenditure with no corresponding benefit to the organisation (R118 000).

Additionally, expenditure of R929 000 (R1.937 million in 2019/20) related to previous years, was written off after completion of its investigation.

Further fruitless expenditure amounting to R4.571 million were incurred on behalf of the DOD as a result of penalties charged. Investigations are ongoing and yet to be concluded.

Irregular expenditure R6.516 million was noted during 2021/22 (R5.582 million in 2020/21). Main contributors to irregular expenditure included:

- Single source without the required approval from National Treasury
- Procurement that occurred without following the competitive bidding process.
- Services that were provided by a non-tax compliant service provider.

In terms of *Consequence Management*, Armscor notes the following: “Consequence management was taken regarding responsible officials in line with internal processes and some of the matters disclosed above are still under investigation which are at an advanced stage of completion.”

Findings of the Auditor-General of South Africa (AGSA)

As in the previous year, Armscor obtained an **unqualified audit** from the Auditor-General of South Africa (AGSA) for 2021/22.

The AGSA made four notes in Armscor audit that may require improvement on the side of the entity in future:

- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework.
- Effective and appropriate steps were not taken to prevent irregular expenditure of R11.5 million.
- Senior management did not exercise sufficient oversight responsibility of financial reporting. This was mainly a result of insufficient reviews by management combined with system-imposed limitations linked to the legacy systems used to compile the financial statements.
- The South African Police Service is investigating allegations of procurement irregularities at the Dockyard. These investigations were still in progress by the time the Annual Report was submitted to Parliament.

8. COMMITTEE OBSERVATIONS: ARMSCOR

The Committee made the following general observations on the 2021/22 Armscor Annual Report:

- a. The Committee expressed concern around the decline in commercial services revenue at Armscor.
- b. The Committee requested further information on the revenue from individual commercial activities at the various Armscor facilities, such as Hazmat, Alkantpan, Protechnik and IMT.
- c. Members request information on the latest developments in relation to the midlife upgrades of the SA Navy frigates and submarines. Armscor noted that there are two acquisition projects for midlife upgrades, but that they were stopped due to lack of funds. Some progress has since been made and there is a plan going forward for the Navy to prioritise some upgrades from exiting funding.
- d. Members noted the poor performance of the SA Air Force in terms of flying hours in 2021/22 and that this was largely due to maintenance constraints. This observation should be read together with the presentation to the Joint Standing Committee on

- defence of 24 February 2022 where Armscor indicated to Parliament that only 45 of the SA Air Force's 215 aircraft were serviceable. During the Annual Report engagements, Armscor stated that while this was the case in 2021/22, all maintenance contracts have since been put in place for all aircraft, except for the Hawks which were in the process of being finalised. Armscor also noted that contracts with Denel are in place for the maintenance of the C-130 transport aircraft and the Rooivalk and Oryx helicopter fleets.
- e. Members expressed their satisfaction with the progress in Projects Biro and Hotel, but noted slight delays in the finalisation of Project Hotel due to external factors affecting the supplier in Durban.
 - f. The Committee expressed concern around the provision of the A-Darter missile to the SA Air Force by Denel Dynamics. Armscor noted that many key skilled personnel left Denel. To revive the programme, these personnel and their current employers will have to be approached. The Strategy going forward envisages the involvement of the local defence industry.
 - g. The Committee again expressed the need for progress and decision-making on Project Hoefyster. Armscor noted that a way forward has been agreed upon by all stakeholders and this will limit financial losses. The future of Phase 1 of the Project will depend on the DOD Project Control Board (to be convened in Nov 2022) that must accede to relaxation of some conditions.
 - h. The Committee welcomed Armscor's unqualified audit opinion.
 - i. Members noted that Armscor remains largely reliant on government funding and observed the need for the entity to engage other institutions to increase revenue. Armscor indicated that there are Memoranda of Understanding in place with a number of government departments and state-owned companies.
 - j. Members expressed concern around the sustainability of second-tier defence suppliers and how they are affected by the situation at Denel. Armscor confirmed this view and noted that Denel subcontracts to a number of smaller companies, including for Project Hoefyster which had more than 200 suppliers.
 - k. The Committee expressed the need for Consequence Management to be implemented in cases of fruitless, wasteful and irregular expenditure.

9. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2021/22 Armscor Annual Report, the Committee makes the following recommendations:

Recommendations to the Minister of Defence and Armscor Board:

- a. Armscor is urged to intensify its commercialisation strategy as a means to limit the impact of decreasing defence funding allocations. Similarly, better cooperation with other government departments are encouraged to ensure that the services of Armscor are more widely recognised and used.
- b. The Committee recommends ongoing engagement between Armscor, the DOD and National Treasury on the funding of the midlife upgrades of the SA Navy frigates and submarines (also refer to the PCODMV recommendation to the Minister of Finance).
- c. The DOD, Armscor, Denel and National Treasury are urged to address the need for improved landward defence technology, notably in the SA Army Infantry Formation. A way forward on Phase 2 of Project Hoefyster is required or, in lieu thereof, a way forward on the upgrading of the current Ratel fleet is required (also refer to the PCODMV recommendation to the Minister of Finance).

- d. The Committee welcomes the fact that maintenance contracts have been put in place for all SA Air Force Aircraft platforms. The Minister of Defence and Armscor Board should, in future, ensure that such contracts are negotiated and renewed well in advance of its expiry dates.
- e. The Committee recommends the development of an urgent plan of action around the A-Darter missile system, its further production and delivery to the SA Air Force. This is of particular concern, given the statement that the current missiles in use by the SA Air Force is nearing the end of its operational life. A similar recommendation was made in the 2021 PCODMV BRRR, yet little progress has been made.
- f. The Minister and Armscor Board should ensure that adequate consequence management is in place. The Committee recommends that Consequence Management should be implemented on the most recent cases of irregular, unauthorised, and fruitless and wasteful expenditure and then they should work backwards to older cases. This will ensure that members are held to account before leaving the entity and serve as a deterrent against further such cases.
- g. Armscor and the DOD are encouraged to work together to ensure that funding is availed for the upgrading of Armscor technologies required for the entity to remain globally competitive.

Reporting requirements:

- a. Armscor should report on progress made in relation to Phase 1 of Project Hoefyster and decisions taken by the DOD Project Control Board on the future of the Project by 1 February 2023.
- b. Armscor should report the revenue from individual commercial activities at the various Armscor facilities to the PCODMV by 1 February 2023. These figures should also be included in subsequent Annual Reports.
- c. Armscor should report an action plan around the further development of the A-Darter missile system in the 2023/24 Annual Performance Plan. Should a feasible plan not be in place, Armscor should indicate contingency plans to address the ageing SA Air Force fighter missile stockpile.
- d. Armscor should provide bi-annual reports on the implementation of Consequence Management in relation to irregular, fruitless and wasteful expenditure in the entity. The first such report should be submitted to the PCODMV no later than 1 May 2023.
- e. The Committee notes that Armscor managed maintenance and support contracts worth R3.960 billion in 2021/22. Armscor should provide a high-level breakdown of spending on these contracts as it relates to operational equipment of the SANDF before 15 December 2022.
- f. Armscor should inform the Committee on the status of the maintenance contracts for the Rooivalk, Oryx and C-130 fleets of the SA Air Force by 15 December 2022.
- g. Armscor should provide the Committee with bi-annual updates of the maintenance status of the SA Navy frigates and submarines. The first such report should be submitted to the Committee no later than 1 May 2023.

PART B: 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 1992) also cover certain aspects of the mandate. This Report will focus on the:

- Strategic Overview for the 2021/22 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 2021/22 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.

2. STRATEGIC PRIORITIES OF GOVERNMENT AND THE CCB.

2.1 State of the Nation Address 2021

President Cyril Ramaphosa, during his SONA on 11 February 2021, made the following remarks that can be related to the mandate and activities of the CCB:

- “Work is under way with the relevant departments to reform our visa and immigration regime to attract skills and grow the tourism sector. As international travel starts to recover in the wake of COVID-19, we will undertake a full roll-out of eVisas to visitors from China, India, Nigeria, Kenya and 10 other countries in the world.” This was an important announcement, given that the CCB is very reliant on tourists to generate income.
- “And, finally – and not leaving many other things aside – we must fight corruption and strengthen the state that has been weakened.” As in previous years, the President noted the fight against corruption and in this regard, the CCB's “fully-fledged” Fraud Prevention Policy that addresses criminality, is noteworthy.
- “It is our priority for this year to regain lost time and improve educational outcomes, from the early years through to high school and post-school education and training.” The CCB annually has a number of student leaderships being offered and for the year under review, had 7 interns out of a target of 12.
- “Furthermore, the departments of Small Business Development, and of Trade, Industry and Competition are supporting SMMEs to access larger domestic and international markets.” The CCB's strive to support local businesses and adhere to the guideline to pay SMME's within 30 days.

2.2 National Development Plan and the Medium Term Strategic Framework (2020 - 2025) Priorities

For the last two years, the CCB's annual reports did not make any reference to the NDP and the only reference to the MTSF is by the Auditor General, in the previous financial year. The Annual Report for 2021/22 refers to the MTSF and states that "One of the most significant impacts of the virus was the climate of uncertainty it created. Although most of the COVID 19 restrictions were lifted in June 2022, the MTEF and the MTSF cycles will have to be adjusted to provide for the aftereffects of this unprecedented, global event."

3. SUMMARY OF PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

The Portfolio Committee, after considering the 2020/21 Annual Report of the CCB, made the following recommendations:

- a. The Committee commended the CCB on its clean audit opinion and reiterated its stance that it expects such a small entity to perform well during its auditing processes.
- b. The CCB was encouraged to further enhance its self-generating capability to ensure that it is less reliant on the Department of Defence, and that it should prioritise its much vaunted Revenue Generating Strategy to assist to increase the CCB's revenue
- c. Noting the Going Concern challenges have been exacerbated by the pandemic, the Committee recommends that the CCB should, *inter alia*, explore the full utilisation of all facilities at the Castle to enhance its sustainability and revenue generating abilities. Progress in this regard should be reported at the next meeting with the Committee.
- d. The Committee welcomed the CCB's initiative to utilise an e-brochure but was encouraged to develop online exhibitions to increase its coverage, especially to rural schools, while noting that such a project would be funding-dependent.
- e. The Committee raised its serious concern that an amount of R937 746 could be incurred as Irregular Expenditure and viewed as trivial and reiterated its stance that such a small entity with a small budget, should not incur such Irregular Expenditure.
- f. The Committee encouraged the CCB to enhance its efforts to obtain a UNESCO World Heritage Site listing and wants it to brief the Committee on progress in this regard as well as indicating when it expects to achieve this objective.

4. STRATEGIC OVERVIEW: HIGHLIGHTS AND CHALLENGES

4.1 Strategic Outcome oriented goals

The 2021/22 Annual Report 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.

4.2 Highlights

The Chairperson and Chief Executive Officer of the CCB referred to some of the following:

- The former Minister presided over the opening of the launch of the online Camissa museum and African centre for restorative memory in April 2021.
 - A clean audit opinion from the AGSA.
 - The CCB managed to self-generate R3.3 million.
 - Almost all corporate governance, heritage maintenance, tourism, and public access targets were met.
 - Visitor numbers were on the mend but at 33 452, it is still way off the 120 000-benchmark.
 - Participation on national heritage platforms continued with participation and publication in the South African Museum Association conferences and publications.
 - Full-time deployment of the Regional Works Unit of Defence (the Defence Works Formation), the CCB's small maintenance team, and the DOD-funded maintenance and gardening team have improved the architectural and heritage integrity and transformed the aesthetics of this 356-year-old building, thereby staving off negative attention from mostly local polemicists.
 - Media coverage on CCB was favourable and reached a worldwide audience of 604.24 million people, translating into an advertising value equivalent of R82 million.

4.3 Challenges

- Dealing with the challenges and opportunities a post-COVID-19 world offers all to support the objectives of Project Koba-Tlala.
- Engaging the Minister to formalise the legal agreement between the Executive Authority and the Board.
- Seriously addressing the Going Concern challenge and sustainability challenges once and for all.
- Although it will take time and resources, the CCB undertake to start processes to get evaluated and registered in terms of its B-BBBEE status in compliance with the B-BBBEE Act.
- Pursuing the review of and possible scrapping to the Castle Management Act.
- Tackling the safety and security risks at the main entrance and around the Castle.
- Pursuing the Castle's UNESCO World Heritage Site listing along with the prescripts of the Castle's Integrated Conservation Management Plan.
- Roll-out of the subsequent phases of CCB's Responsible Commercialisation strategy to drive sustainability through aggressive marketing of the Castle as a premier, one-stop cultural tourism and events destination.
- Maintain and strengthen institutional, corporate, and administrative management processes at the CCB.
- Securing the perimeter fence has become imperative if the CCB want to position itself for UNESCO World Heritage status.

5. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

5.1 Financial Performance for the 2020/21 Financial Year

The under-expenditure of R2.7 million for 2021/22 may appear as a saving, but it has to be viewed against the background of the R5.5 million financial support from the DOD. In fact, given that this is more than half the amount given by the DOD, it can be questioned whether the financial assistance should not be decreased. This against the over-expenditure of R658 000 for 2020/21 which was also mainly due to the over-expenditure of R696 000 in the Administration Programme and R82 000 in the Conservation Programme.

	2019/20		2020/21		2021/22		
	R'000 (R thousand)						
	Budget	Actual Expenditure	Budget	Actual Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
Administration	8 031	5 299	4 711	5 407	8 450	6 203	2 247
Conservation	662	428	304	386	660	483	177
Tourism Promotion	15	9	0 0 0	0 0 0	85	5	80
Public Access	250	109	150	30	243	65	178
Total	8 958	5 845	5 165	5 823	9 438	6 756	2 682

Budget for 2019/20 to 2021/22

The under expenditure of R2.68 million might be indicative of the need to reduce the R5.5 million financial support to the CCB. It is also surprising that given the focus on maintenance, R177 000 was not spent in the Conservation programme. The Budget of R85 000 for Tourism promotion saw only R5 000 being utilised, against the background that no budget was allocated for the previous year to this programme. In the year preceding, only R9 000 was spent from the allocated R15 000. While these amounts may appear to be miniscule, it raises the question of whether proper planning has been done in this regard. A similar argument can be had with Public access, where only R65 000 of the allocated R243 000 was utilised.

Source of revenue	2019/20		2020/21			2021/22		
	Estimate	Amount collected	Estimate	Amount collected	(Over)/under collection	Estimate	Amount collected	(Over)/under collection
	R'000 (R thousand)							
Sales	5 870	3 921	1 100	475	625	2 586	1 075	1 511
Rental income	2 456	1 496	1 056	255,4	800,6	1 100	2 100	(1 000)
Other income	622	394	9	555,2	(546,2)	102	46	56
Interest income	10	0	0	34,4	(34,4)	150	107	43
Grant			3 000 (4 900)	4 900	(1 900)	5 500	5 500	0
TOTAL	8 958	5 811	5 165	6 220	(1 055)	9 438	8 828	610

Revenue 2019/20 - 2021/22

While cognisant of the impact of the Covid-19 pandemic, it is concerning that sales for the past three years have not met the set targets, while rental income saw an over collection of R1 million for the first time in three years. It is however encouraging that interest income has steadily increase over the three years. The fact that an over collection of R1.055 million for the last financial year has been followed by an under collection of R610 000, should be engaged with and reasons therefor should be provided. It should be enquired whether the Responsible

Revenue Generation Plan was mainly responsible to generate at least R3.328 million of the CCB's income.

5.2 Financial statements

Irregular expenditure, Unauthorised Expenditure and Fruitless and Wasteful Expenditure

The Annual Report states that *“The irregular expenditure identified in the previous year (R 939 746) was fully condoned. These were noncash flow items that had been omitted from the entity's formally approved expenditure budget and comprised depreciation and amortization charges on fixed assets (furniture, IT equipment and software) and a provision for employee leave benefits.”*

Disclosed as Irregular Expenditure arising during the current year are the following amounts:

- R 38 236 for cleaning services contracts that were extended without informing National Treasury.
- R 13 964 paid in July 2021 for a technical review of the prior year's annual financial statements (a service that had hitherto been provided by internal audit) where owing to the urgency three quotations had not been obtained.
- R 23 600 on legal services paid to a service provider who was not registered on National Treasury's Central Supplier Database – this had enabled the CCB to depose in a replying affidavit to thwart litigation regarding the custody of museum artefacts that had been threatened against the CCB, the Minister of Defence & Military Veterans and the Chief of the SANDF.
- A further R301 relates to the purchasing of personal protective equipment (PPE) at prices that were higher than as recommended by National Treasury.

The total amount for Irregular Expenditure for the period under review is R76 121.00. While the amount of R937 746 was denoted as trivial in a total budget of R 5 175 000 for the previous financial year, the amount of R76 121 is a big improvement.

No **fruitless and wasteful expenditure was incurred**. Even though it has decreased significantly, as such a small entity should be able to steer clear of all Irregular Expenditure. The comment *“this had enabled the CCB to depose in a replying affidavit to thwart litigation regarding the custody of museum artefacts that had been threatened against the CCB”* is concerning.

5.3 Findings of the Auditor-General of South Africa

The CCB received a second consecutive clean audit for 2021/22, which means that they received a financially unqualified audit opinion with no material findings on compliance and performance reporting. This should be read with the comment by the Audit and Risk Committee that the AGSA has undertaken a limited assurance engagement on reported performance information for *Programme 2: Maintenance and conservation* at the Castle of Good Hope. Performance information in the annual performance report was properly presented and accepted as useful and reliable.

5.3.1 Going Concern

The Annual Report states regarding the “Going Concern” challenge, that *“Support from the SA National Defence Force with the full backing of the Minister of Defence & Military Veterans has enabled the Castle Control Board to fulfil its functions and responsibilities during the periods of pandemic and lockdown, while the Board and its management team have been diligent and effective in seeking out and facilitating opportunities to generate additional revenues and cash flows through the CCB’s own efforts.”*

That the CCB is concerned about its Going Concern challenge is evident in the numerous reference to this challenge, from the section listing the Challenges facing the CCB, to its acknowledgement that it is dependent on financial support of the DOD to sustain its operations. Although it is admitted that the CCB's revenue generating capacity has been negatively affected by the COVID-19 lockdown regulations; its reliance on the DOD to ensure that it continues to operate as a Going Concern, should be addressed.

5.3.2. Responsible Revenue Generation Plan

Aligned to the challenges regarding the CCB as a Going Concern, is the Revenue Optimisation Strategy

and/or Responsible Revenue Generation Plan, as they initially called it. The Annual Report, for instance, states that *“Rudely interrupted by the pandemic, we have resumed the rolling out of Phase 2 of our Revenue Generation Strategy. We have a small, operational Gift Shop run by a disabled staff member. We started to promote the state-of-art Conference Centre to generate income. The contract of Five Star Restaurant has ended, offering us an internal opportunity (with Het Bakhuis) to look at delivering an excellent service to our clients who can then spend in other areas. The focus is on high-yield commercial events for the site, thereby supporting the objectives of Project Koba-Tlala.”* The much vaunted Revenue Generation Plan, its phases and amended projections following the Covid pandemic, were not clearly explained.

6. OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE

6.1 Non-financial performance

The 2021/22 Annual Report had 20 targets. Only three were not met and these were two from Programme 3 and one from Programme 4. Those not met were listed as:

- Total number of visitors per annum had a target of 120 000 while the achievement was 33 452. They explained that although their tourism numbers doubled yearly, they did not meet their recovery rate estimates. The target was also not met in the previous year.
- The target for Total gross revenue generated per annum, was R9.438 million and the actual achievement was R8 829 million, but this was inclusive of the R5.5 million grant from the DOD.
- The Number of student leaderships offered per annum had a target of 12 while 7 was achieved with the reason being that *“After a directive from the Authorities, Cape University withdrew its interns from the program”* – similar to the previous year.

The Annual Report for the previous year (2020/21) indicated that 19 of the 21 key performance indicators were achieved, while the year under review saw 17 of the 20 targets being met. The 85% success rate was thus met with an expenditure of R6.756 million of the allocated budget of R9.438 million, but this need to be viewed against financial support of R5.5 million from

the DOD. It stresses the point that without the latter, the CCB would have struggled to achieve 85% of its targets with utilisation of 73% of the budget.

6.2 Programme 1: Administration and Good Corporate Governance

For the financial year under review, all six APP targets were met, against an under spending of 73%. The previous financial year overspent by 115% and all seven targets were met. This programme deals with areas of administration, corporate governance, financial management, human resource management and stakeholder communication.

	FY2021/22	FY 2020/21	FY2019/20	FY2018/19
Programme 1: Targets	6	7	8	4
Targets achieved	6	7	7/8	4/4
Targets not achieved	0	0	1/8	0/4
Success rate	100%	100%	87.5%%	100%
Programme Budget Spent (%)	73%	115%	66%	92.3%

The CCB performed well in achieving all of Programme One's six annual targets for the financial year under review, although the underspending of the budget by 27% is noted. One target was included in previous financial years was omitted for the last two financial years under review, namely the payment of invoices within 30 days. Given the importance of such an annual target, the CCB should be encouraged to re-instate this annual target

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

All four targets of Programme 2 have been achieved against a spending of 73% of the budget, with a similar achievement of 100% of the targets in the previous year

	FY2021/22	FY 2020/21	FY2019/20	FY2018/19
Programme 2: Targets	4	4	3	4
Targets achieved	4	4	3/3	3/4
Targets not achieved	0	0	0/3	1/4
Success rate	100%	100%	100%	75%
Programme Budget Spent (%)	73%	113%	64.5%	43.8%

The CCB should be applauded for the performance of this Programme, especially as it relates to the preservation and showing of the Castle. The underspending overspending 27% in this programme is noted and reasons for this should be sourced from the CCB.

6.4 Programme 3: Maximising the Tourist Potential

Programme 3 saw a performance where 4 of the six targets were met in the financial year under review. The two missed target relate 'visitors per annum' and 'commercial events', both issues that suffered because of the Covid-19 pandemic. The success rate remained the same with same two targets being missed. The fact that only 6% of the budget was spent against none the previous financial year, is concerning.

	FY2021/22	FY 2020/21	FY2019/20	FY2018/19
Programme 3: Targets	6	6	6	6
Targets achieved	4	4	5/6	5/6
Targets not achieved	2	2	1/6	1/6
Success rate	67%	67%	83.33%	83.33%
Programme Budget Spent (%)	6%	0/0	60%	5%

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

The success rate of this programme remained the same as the previous year as one of the targets was not met, namely the number of learnerships. This against the background that only R30 000 of the allocated R150 000 of this programme was spent.

	FY2021/22	FY 2020/21	FY2019/20	FY2018/19
Programme 4: Targets	4	4	4	4
Targets achieved	3	3	4/4	4/4
Targets not achieved	1	1	0/4	0/4
Success rate	75%	75%	100%	100%
Programme Budget Spent (%)	27%	20%	43.6%	144%

The CCB should be asked to explain the background to the statement that “*After a directive from the Authorities, Cape University withdrew its interns from the program.*” It is concerning that this target around the usage of interns has been lowered against the background of the challenges of youth unemployment in the country. The CCB should be encouraged to maximise the learning opportunities for the youth at the CGH through the number of student leadership offers per annum at the CCB, especially given that it is indicated that the DOD is willing to fund such initiatives.

7. GOVERNANCE

The Annual Report refers to various issues under this section, *inter alia*, its four engagements with the Portfolio Committee but only one date is mentioned namely 10 November 2021. They point out that due to various circumstances, the Minister delegated her CCB’s oversight role to Deputy Minister Makwetla in December 2019 and that they had four engagements with the Deputy Minister. The CGH operates as a Schedule 3A Public Entity, and states that a Risk Register has been developed to determine the effectiveness of its risk management strategy and to identify new and emerging risks.

7.1 Risk Management

The Risk Register forms the basis for regular risk assessments to determine the effectiveness of the CCB’s risk management strategy and to identify new and emerging risks. While the 2017/18 Annual Report listed the various Strategic Risks, this was not done for the subsequent three years, including 2021/22. 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. Similar to 2018/19 and 2019/20 the CCB does not list the actions plans to address the Strategic

Risks, as opposed to this being done by the Department of Defence and the Department of the Military Veterans.

7.2 Fraud and corruption

The CCB has a fully-fledged Fraud Prevention Policy that also addresses criminality. It aims to make losses due to fraud and corruption intolerable and will institute training covering these aspects. It further states that in the case of significant corporate functions at the Castle, that they source additional private security that is paid for by the client. The upgrading of the CCTV camera system will further enhance their capability to manage safety and security.

8. HUMAN RESOURCES

As in the previous Annual Report, the CCB states that its Human Resources issue need to be viewed against the background that *“Traditionally the Human Resources component of the CCB has been both its Achilles heel and strength. On the one hand, its historical reliance on DOD-remunerated staff assigned to the Castle has led to significant savings ...but on the other hand, it attracted the ire of N.T. and the AGSA and delayed any decisiveness as to the ultimate civilian management structure of the CCB.”* It states further that the CCB has now successfully resolved this matter but has been put on the backfoot with the departure of three managers and two other staff members.

The Annual Report indicates that no *performance rewards* have been paid to its personnel in 2021/22. The CCB Management team comprised 13 full-time CCB remunerated staff members at the end of 2021/22. Short-term contract staff, interns (7), and additional casual staff employed to assist during the peak tourism season and the eight (8) members of the DOD-funded gardening maintenance team increased the extended Castle HR base to 28. They carried the maintenance team members as "casual labour" for March, but after a Board resolution, they have subsequently been listed as employees since year-end. One of the concerns is that the Total Expenditure for the entity was R 6 756 000 versus a Personnel Expenditure of R4 742 000, indicating that 70.2% of its total budget is being spent on personnel. Although its acknowledge that the CCB is a labour-intensive service providing entity, the 70% being spent on personnel is concerning.

9. COMMITTEE OBSERVATIONS: CASTLE CONTROL BOARD

The Portfolio Committee made the following Observations on the 2021/22 Annual Report of the CCB:

- a. The Committee commended the CCB on achieving a consecutive clean audit outcome from the AGSA; that they are improving their performance after the impact of the Covid pandemic and also thanked the DOD for the relief fund and availability of artisans from the Regional Works Regiment.
- b. It was observed that the pristine condition of the Castle of Good Hope is appreciated through the continued repair and maintenance to preserve this 367-year-old building.
- c. While noting that eight contract workers from a cleaning company have been appointed on contract at the CCB, the Committee expressed the hope that the entity will continue to secure employment for these workers. Similar sentiments were expressed regarding the utilisation of the seven interns.

- d. Questions were asked around the working relationship and communication with the DOD, and whether any challenges are being experienced in this regard. The CCB indicated that, as with the Regional Works Regiment, the Army Support Base as well as the relevant Reserve units are all very helpful and their support allows for the effective functioning of the CCB.
- e. The Committee raised its concerns around the number of vacancies and especially the reasons why managers left the employment of the CCB. It wanted to know whether there were certain environmental factors why these managers left, and if yes, how they plan to address these in order to retain personnel.
- f. A question was raised on the visitor numbers which were on the mend but, at 33 452, it is still way off the 120 000-benchmark, and how the CCB foresee they will address this. The response was that this item is high on their agenda and that they are looking at increasing spending in this regard from only R5 000 to R100 000.
- g. It was noted that the CCB has previously stated its intention to deal with its Going Concern challenges and that the AGSA has previously stated that, due to the financial assistance of the DOD, the entity could prepare its financial statements on the Going Concern basis.

10. COMMITTEE RECOMMENDATIONS: CASTLE CONTROL BOARD

The Portfolio Committee, after considering the 2021/22 Annual Report of the CCB, makes the following recommendations:

- a. The Committee expressed its expectation that the CCB should continue to receive a clean audit opinion and reiterated its stance that it expects such a small entity to perform well during its auditing processes.
- b. The Committee recommends that the DOD continue to second Regional Works Regiment artisans to the CCB, as they are making a substantial contribution to the maintenance and repair work at this 367-year-old building.
- c. The Committee encourages the CCB to continue to create employment opportunities for both the contract workers and interns to assist with addressing the huge challenge of unemployment in the country.
- d. The Committee commended all DOD role-players for its support to the CCB and encourages them to continue to support the CCB.
- e. The Committee recommends that the CCB provides it with the reasons why some managers left, whether it was due to environmental factors and whether it has a retention strategy to ensure the continued employment of its personnel.
- f. The Committee recommends that the CCB enhances efforts to increase the number of visitors to pre-Covid levels, and agreed that the increased spending on this item should assist in this regard.
- g. Noting the Going Concern challenges have been exacerbated by the pandemic, the Committee recommends that the CCB should, *inter alia*, explore the full utilisation of all facilities at the Castle to enhance its sustainability and revenue generating abilities.

Report to be considered.

[This report replaces the Report of the Portfolio Committee on Public Service and Administration, which was published on page 226 of the Announcements, Tablings and Committee Reports dated 20 October 2022]

4. BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR) OF THE PORTFOLIO COMMITTEE ON PUBLIC SERVICE AND ADMINISTRATION: VOTE 12 OF THE PUBLIC SERVICE COMMISSION (PSC), DATED 17 OCTOBER 2022

1. BACKGROUND

The Portfolio Committee on Public Service and Administration (hereinafter referred to as the Portfolio Committee) having considered the directive of the National Assembly, which is in line with Section 5 of the Money Bills Amendment Procedures and Related Matters Act, No. 9 of 2009 to consider and report on the Annual Report of the Public Service Commission (an Independent body) 12 October 2022 reports as follows:

2. INTRODUCTION

Parliament represents the people of South Africa and it has a responsibility to keep the government accountable to the people. Parliament derives its mandate from the Constitution of the Republic of South Africa. According to Section 55 (2) of the Constitution “the National Assembly must provide for mechanisms (a) to ensure that all executive organs of state in the national sphere of government are accountable to it; and (b) to maintain oversight of the exercise of national executive authority, including the implementation of legislation and any organ of state.

Parliament has developed and approved its Strategic Plan for the 06th democratic Parliament. The 6th Parliament reaffirmed its commitment to law making, oversight and public participation but also to its vision of being an activist and responsive people’s Parliament that improves the quality of life of South Africans and ensures enduring equality in our society.

The strategic objectives of the Portfolio Committee are informed by five strategic goals of Parliament. The functions of the Portfolio Committee on Public Service and Administration are as follows:

- Participating and providing strategic direction in the development of the legislation and thereafter passing the laws.
- Conducting oversight over the Executive to ensure accountability to the Parliament towards achieving an effective, efficient, developmental and professional public service.
- Conducting public participation and engaging citizens regularly, with the aim to relating to the public sector.
- Monitoring the financial and non-financial aspects of departments and its entities and ensuring regular reporting to the Committee, within the scope of accountability and transparency.
- Supporting and ensuring implementation of the Public Service Commission (PSC) recommendations in the entire public service.
- Participating in international treaties which impact on the work of the Committee.

3. PURPOSE OF THE BUDGETARY REVIEW AND RECOMMENDATIONS REPORT

In terms of Section 5 of the Money Bills Amendment Procedures and Related Matters Act, No. 9 of 2009, the National Assembly, through its Committees, must annually compile Budgetary Review and Recommendations reports (BRRR) that assesses service delivery and financial performance of departments and may make recommendations on forward use of resources. The BRRR is also a source document for the Committee on Appropriations when considering and making recommendations on the Medium Term Budget Policy Statement.

The Money Bills Amendment Procedures and Related Matters Act, section 5 (3) highlights focus areas on the budgetary review and recommendation report as:

- Providing an assessment of the department's service delivery performance given available resources.
- Providing an assessment of the effectiveness and efficiency of the departments use and forward allocation of available resources; and
- Including recommendations on the forward use of resources.

3.1 Method

The Portfolio Committee on Public Service and Administration compiled the 2021/22 BRRR using the following documents:

- The National Development Plan: Vision for 2030.
- Medium Term Strategic Framework 2019 - 2024.
- State of the Nation Address 2021/22.
- Strategic Plan of the PSC.
- National Treasury (2022) 4th Quarter Expenditure 2020/21 Financial Year.
- Annual Performance Plan (2021/22) of the PSC.
- Annual Report (2021/22) of the PSC.
- Auditor-General South Africa's outcomes of audit findings 2021/22.
- The Portfolio Committee also met with the leadership and management of the PSC.

4. OVERVIEW OF THE PUBLIC SERVICE COMMISSION

The PSC is an independent institution established in terms of Chapter 10 of the Constitution. It derives its mandate from Section 195 and 196 of the Constitution, 1996, which set out the values and principles governing public administration, which should be promoted by the PSC, as well as the powers and functions of the PSC. The PSC is required by the Constitution to exercise its powers and to perform its functions without fear, favour or prejudice. The Constitution links the PSC's independence firmly with its impartiality and no organ of state may interfere with the functioning of the PSC.

The PSC is vested with custodial oversight responsibilities for the Public Service and monitors, evaluates and investigates public administration practices. It also has the power to issue directions regarding compliance with personnel procedures relating to recruitment, transfers, promotions and dismissals. The PSC is accountable to the National Assembly and to Provincial Legislatures and must annually report on its activities and performance to these two institutions.

5. LEGISLATIVE MANDATE

The PSC is a constitutional oversight body, established in 1996, primarily to promote “a high standard of professional ethics in the public service”. The PSC operates in terms of the PSC Act 1997. The Act provides for the regulation of the PSC with regard to:

- a) The constitution of the PSC.
- b) Appointment of Commissioners.
- c) Designation of the Chairperson and Deputy Chairperson.
- d) Conditions of appointment of Commissioners.
- e) Removal from office of Commissioners.
- f) Functions of the PSC (inspections, inquiries, etc.)
- g) Rules according to which the PSC should operate.
- h) The Office of the PSC (OPSC); and
- i) Transitional arrangements with regard to service commissions (created under the Interim Constitution).

6. STATE OF THE NATION ADDRESS

The key priority identified in the SONA 2021 for the PSC was: *Tackling Corruption and Building a Capable State*. SONA 2021 undertook to tackle corruption and build the capacity of the State by:

- Government establishing a “joint government and civil society working group charged with developing a national anti-corruption strategy and implementation plan, which was close to completion of this phase of its work. Government launched the strategy by mid-year (2020). Since the introduction of the Public Service Regulations 2016, there were reports that some public servants still conduct business with the State.
- Ensuring that Government would reinforce areas like ethics and anti-corruption, senior management and supply chain management, and deployment of managers to the coalface to strengthen service delivery.

7. STRATEGIC PRIORITIES FOR 2021/22

7.1 The policy priorities, as outlined in the Annual Performance Plan for 2021/22, were as follows:

7.1.1 Improvement of organisational performance

The PSC has placed emphasis on the improvement of organisational performance, doing more with less through various efficiencies, and improving on its audit outcomes. Over the past few years, much emphasis was placed on improving the turnaround time in dealing with grievances and public administration investigations through the review of standard operating procedures. The PSC will make significant efforts to improve the functionality of the Integrated Grievance and Complaints Management System, which is an automated case management system. The main advancement in 2021/22 was that analytical reports could be generated from the Data Warehouse where data is systematically collected in standardised formats for all departments. The reports can either be for a department, a sector or a specific indicator like 30-day payment of invoices.

7.1.2 Gender and Disability Mainstreaming

The Office of the Public Service Commission (OPSC) annually reviews and submits the Gender and Disability Mainstreaming Programme of Action to the DPSA. As at January 2021, the representation of females in the Senior Management Service (SMS) of the OPSC was 51% and at the Middle Management Service (MMS) it was at 47%. Although there is no Public Service-wide target for representation at the MMS, the OPSC believes that it can only attain the required target if a strong cohort of middle managers has the requisite skills and capacity to be promoted to the SMS.

7.1.3 Addressing challenges with office accommodation

The PSC has provincial offices in all the provinces, with a small complement of around 10 employees, supporting Provincially Based Commissioners in executing the mandate of the PSC in the provinces. The ergonomics of some provincial offices are not conducive to the occupational health and safety of employees, which is compounded by the additional COVID-19 requirements, yet the Department of Public Works and Infrastructure (DPWI) has been unresponsive to the PSC's attempts to address these issues. Some of the PSC's offices are also not in all respects compliant with the mandatory Minimum Physical Security Standards, due to a lack of responsiveness of the DPWI/ Landlords and a lack of financial resources.

7.1.4 Broad-based Black Economic Empowerment

The PSC has, since 2018/19, set performance standards in its Annual Performance Plan to measure the appointment of service providers who meet the B-BBEE requirements and have exceeded its target in this regard. When the PSC tabled its Adjusted Annual Performance Plan to Parliament in July 2020, the indicator was adjusted upwards from 10% to 40% of B-BBEE suppliers appointed to ensure that the PSC promotes the appointment of the B-BBEE suppliers in its procurement.

7.1.5 Looking into the impact on the operations of the Public Service

The COVID-19 experience has demonstrated that the Public Service can adopt hybrid modes of working and service delivery, thus reducing the need for daily commuting to the office by all employees. This also contributes towards reduced traffic, as well as water and electricity consumption at the office. On the contrary, the savings from the employer are likely to result in increased expenses for employees who work from home. In addition, hybrid modes of working highlight possible challenges on issues of employee health and safety for employees and the safety of the employers' assets whilst working from home and commuting with assets, such as computers, between home and the place of work. These issues necessitate the need to review various Public Service frameworks and policies.

7.1.6 Promoting ethical leadership and anti-corruption

The NDP Vision 2030 addresses the need for a developmental state that is capable, built on strong leadership, sound policies, skilled managers and workers, accountability and observance of the rule of law. The NDP adds that the capable state cannot materialise by decree, but that it has to be built, brick by brick, institution by institution, and sustained and rejuvenated over time.

The State of the Nation Address (SONA) 2021 highlighted that Government “had started implementation of the National Anti-Corruption Strategy, which lays the basis for a comprehensive and integrated society-wide response to corruption.” However, the Strategy is not new, it was initiated in September 2015. Its objectives were to:

- Rejuvenate a national dialogue and direct energy towards practical mechanisms to reduce corruption and improve ethical practice across sectors and amongst citizens in South Africa.

- Provide a robust conceptual framework and strategic pillars to guide anti-corruption approaches across relevant sectors in the country.
- Support coordination between government, business and civil society efforts to reduce corruption and improve accountability and ethical practice.
- Provide a tool for monitoring progress towards a less corrupt society.

Corruption is a major hindrance to good governance in the public sector. As a result, Government has tasked business, civil society and the public sector with tightening anti-corruption measures as part of a mechanism to prevent and curb corruption. However, it is evident that these mechanisms have not yielded much needed results due to the failure of governance that was observed in the procurement of Personal Protective Equipment during the COVID-19 pandemic, which involved both public servants and the private sector.

Conflict of interest is a major contributor to corruption in public institutions, with the foundation being the abuse of power, which erodes the moral fibre of society. In order to address the challenge of conflict of interest and abuse of power, the PSC needs to go back to the basics, such as recruitment processes, which should be thorough. This means when recruiting and selecting candidates, the public service needs individuals who are acutely aware of their public duty, which is to serve the people of South Africa. The PSC has thus commenced with a study on ethics in recruitment and selection processes in the Public Service.

8 PUBLIC SERVICE COMMISSION PROGRAMME PERFORMANCE

8.1 Budget Allocated and Expenditure 2021/22

The final appropriation budget for the PSC for the 2021/22 financial year was R273.8 million and actual spending amounted to R261.2 million which represents 95.4 per cent. For the year under review, the final appropriated budget was R286.3 million and actual spending amounted to R265.8 million or 92.8 per cent of the budget. The spending variance between the final appropriation and the actual expenditure was mainly due to vacant posts that drove underspending on the Compensation of Employees. On Goods and Services, there was underspending due to reasons attributed to savings generated on operational costs as a result of the Commissioner's vacant post and rotational work during the COVID-19 pandemic.

As at the end of the 2021/22 financial year, six of the fourteen posts of Commissioner were vacant. The details of these positions are as follows: a) Four posts at national level, 1 vacant from 25 April 2019

and 3 becoming vacant in January 2022) Two posts at provincial level: Mpumalanga, vacant from 1 April 2019; and Gauteng, vacant from 28 February 2022. Although the positions have been vacant for extended periods, the PSC has no control over the filling of these posts as the responsibility for the recruitment and selection process lies with the National Assembly and relevant provincial legislatures. The PSC has consistently engaged with The Presidency regarding these vacancies. The vacancies impact negatively on the operations of the PSC, as Commissioners are closely involved in the implementation of the mandate of the PSC in departments/ provinces.

As at 31 March 2022, the OPSC had a total of 5 employees employed additional to the establishment, included in the total number of 251 employees. The OPSC vacancy rate of 8% for the 2020/2021 increased to 10% in the 2021/22 financial year. The vacancy rate on salary levels 1 to 12 increased from 8% in the 2020/2021 reporting period to 9% in the 2021/22 reporting period whilst the vacancy rate on SMS level increased from 12% in the 2020/2021 reporting period to 14% in the 2021/22 reporting period.

For the year under review, critical SMS posts were filled, and the target of 50% women in SMS in the Commission was achieved. The OPSC met the national target of 2% for the employment of People with Disabilities out of the total staff establishment, there was a slight increase in the percentage of employment of PWDs from 1.99% in the 2020/2021 reporting period to 2.03% in the 2021/22 reporting period.

Appropriation per programme (R'000)

2021/22				2020/21		
Programme	Final Appropriation R'000	Actual Expenditure R'000	(Over)/Under Expenditure R'000	Final Appropriation R'000	Actual Expenditure R'000	(Over)/Under Expenditure R'000
Administration	134 559	121 947	12 612	128 597	121 637	6 960
Leadership and Management Practice	49 773	49 728	45	47 308	47 272	36
Monitoring and Evaluation	44 267	41 668	2 599	40 382	38 543	1 839
Integrity and Anti- Corruption	57 672	52 428	5 244	57 493	53 704	3 789
TOTAL	286 271	265 771	20 500	273 780	261 156	12 624

PSC: Annual Report 2021/22

8.2 PROGRAMME PERFORMANCE

The PSC has four programmes which performed as follows:

8.1.1 Programme 1: Administration

The purpose of this Programme is to provide overall management of the PSC and centralised support services. This programme reported expenditure of R121.9 million (95.5 per cent) of its available budget as at the end of the fourth quarter of 2021/22. The main cost drivers were: Chief Financial Officer (R38,9 million), due to ensuring compliance with various pieces of legislation, as well as the procurement of the Data Warehouse from the State Information Technology Agency (SITA); followed by Peoples Management Practices (R24,9 million) that assists line management to implement operational excellence, which focused on re-engineering, culture change and capacity building; and Property Management (R23,2 million), which deals with office accommodation, fixed and movable assets.

The PSC has five planned targets under this programme. All four planned targets were achieved by the commission and only one was not achieved. One target not achieved was 100% of payment of valid invoices paid within 7-14 working days of receipt. Actually the target was achieved within 30 days of the PFMA prescripts, however not achieved within ambitious target of 7-14 working days of the commission.

8.1.2 Programme 2: Leadership and Management Practices

The Leadership and Management Practices (Programme 2) is responsible for promoting sound Public Service leadership, human resource management, labour relations and labour practices. The programme has two sub-programmes, namely: Labour Relations Improvement, and Leadership and Human Resource Reviews.

This programme reported actual expenditure of R49.7 million or 99.7 per cent of its 2021/22 budget allocation of R49.7 million as at the end of March 2022. The main cost driver is the sub-Programme Manager: Labour Management Practices (R24.2 million), which regulates management practices regarding labour peace. The other cost driver is Labour Relations Improvement (R16.0 million), due to the caseload of grievances and resolution to be dealt with. The programme had a total of five planned targets for the financial year, all of which were achieved. This translates into a 100 per cent achievement.

The PSC continued to play a critical role in investigating referred grievances that could not be resolved between departments and their employees and making recommendations. The PSC had 558 grievance cases registered on its database, which is a 17.6% reduction when compared

with the 2020/21 statistics and a 30.8% reduction from the 2019/2020 figures. The decrease in the number of grievances lodged with departments and those referred to the PSC can be attributed to reduced contact between employees and supervisors due to hybrid working conditions.

The PSC further continued to finalise report on the Effectiveness of Continuous Employee Development in the Public Service. The findings and recommendations of the study will assist departments to develop and review their training and development policies in response to the current environment, especially skills development and the provision of systems and technological infrastructure to facilitate the adoption of the Fourth Industrial Revolution (4IR) platforms in order to support operations and service delivery.

8.1.3 Programme 3: Monitoring and Evaluation

The main purpose of the programme is to improve the functionality of the Public Service through institutional and service delivery evaluation. This programme reported actual expenditure of R41.6 million or 97 per cent of its 2021/22 budget allocation of R44.3 million as at the end of March 2022. The main cost driver is the Programme Manager: Monitoring and Evaluation (R23.2 million), which monitors service delivery culture within the Public Service. The programme had a total of six planned targets for the financial year, all of which were achieved. This translates into a 100 per cent achievement.

The programme establish sound and good governance in the public service remains one of the focus area of the commission. The Commission has evaluated the constitutional principles and a particular focus was given to the principles of “public participation and “development orientation” during 2021/22 financial year. The purpose was to determine departments’ application of the principles with the overall aim of effecting changes to public administration practices.

The PSC held engagements with various Executive Authorities in order to provide the commission’s assessment of the portfolios under Ministries, highlight areas of urgent attention and build working rapport.

With regard to the National Anti-Corruption Hotline, the commission data warehouse has been maintained 100% updates on NACH data sets. Various reports have been generated. The Commission continue to conduct announced and unannounced inspections of service delivery sites to evaluate service delivery from the perspective of citizens and identified service delivery challenges that can be addressed immediately. In 2021/22, the commission conducted

unannounced inspections at selected Home Affairs service sites across the nine provinces at 58 sites to assess the level of accessibility and the extent to which services have been modernised to ensure the eradication of backlogs and long queues. In addition, 30 announced and unannounced inspections were conducted in schools, health facilities and Police Stations.

The Commission continued to monitor performance of departments in terms of payment of invoices of suppliers within the 30-day timeframe as per the National Treasury PFMA regulations. Quarterly monitoring articles produced were published in the PSC's PULSE to highlight the plight of Small Medium and Micro Enterprises on the payment of service providers. The Commission further continued to promote constitutional values and principles. It held 26 engagements for the period under review through its active participation in dialogues and webinars hosted as part of 2021 strategic plan and the Public Service Month.

8.1.4 Programme 4: Integrity and Anti-Corruption

The Integrity and Anti-Corruption programme is responsible for undertaking public administration investigations, promoting a high standard of professional ethical conduct amongst public servants and contributing to the prevention and combating of corruption.

This programme reported actual expenditure of R52.4 million or 95.5 per cent of its 2021/22 budget allocation of R57.7 million as at the end of March 2022. The main cost drivers are the Programme Manager: Integrity and Anti-Corruption (R22.5 million), which monitors corrupt practices within the Public Service and the Professional Ethics (R20.4 million) promoting professional ethics in the Public Service by managing integrity systems and conducting research on the effectiveness of ethics promotion in the Public Service. The programme had a total of six planned targets for the financial year, all of which were achieved. This translates into a 100 per cent achievement.

The Commission under the programme undertakes investigations into personnel and public administration practices. Complaints regarding alleged unethical conduct and irregularities are investigated. There were 409 complaints on the database of which 254 (62%) were finalised and the remaining 155 cases (38%) were in progress. Out of 255 complaints finalised, 184 cases were handled in terms of Early Resolution and the remaining 70 cases were investigated by the PSC. Of the 70 cases investigated, 65 complaints (93%) were finalised within 90 working days upon receipt of all relevant information and documents.

Complaints handled in the 2021/22 financial year were predominantly related to irregularities regarding human resource and procurement practices. In the 2021.22 financial year, complaints

relating to personnel practices increased slightly to 201 cases compared to 185 in the 2020/21 financial year. Emanating from investigations into the regularity of appointments and in instances where allegations were found to be substantiated, the Commission made recommendations to Executive Authorities to facilitate the institutions of disciplinary action and approach the Court to rectify such irregular appointments.

Complaints related to Public Administration Practices has increased from 149 cases in the 2020/21 financial year to 208 in 2021/22. The increase could be ascribed to the fact that the public is more aware of the PSC and its investigative function. More complaints relating to irregularities of SCM processes and procedure are being reported. During the year under review, a comprehensive review into the handling of complaints was conducted.

The Commission continued to manage systems to promote and strengthen integrity in the public service such as the Financial Disclosure Framework for senior managers and the NACH. The PSC received in total 9690 (98%) of the 9899 financial disclosure forms that were expected as per the due date. Based on the scrutiny, the financial disclosure revealed that there are still SMS members in both the national and provincial departments who failed to disclose their interest in private and public companies. This contravenes Regulation 19 of the Public Service Regulation.

The public service had a total number of 1491 SMS members with interests in companies. It was discovered that 581 of the SMS members did not disclose their financial interest in companies. The majority of the SMS were in national departments, with 376 SMS and the provincial departments had 195 cases. Among the SMS members who fail to disclose their financial interest in directorship and companies are three Directors-General in national departments and one HOD in the provincial government.

The Commission received 1563 complaints were lodged with NACH. Of the 1563 complaints lodged, 1350 complaints were lodged through the Call Centre and 179 complaints were lodged through email, fax, post and website.

9 AUDITOR GENERAL'S REPORT

9.1 Auditor-General Opinion

The Auditor-General (AG) have audited financial statements of the PSC set out on pages 138 to 223, which comprise the appropriation statement, statement of financial position as at 31 March 2022, the statement of financial performance, statement of changes in net assets, and

cash flow statement for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

The AG'S opinion, the financial statements present fairly, in all material respects, the financial position of the PSC as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standard (MCS) as prescribed by National Treasury and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

9.2 Compliance with legislation

In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the department's compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the department's compliance with legislation.

9.3 Internal control

The Auditor-General considered internal control relevant to the audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The Auditor-General did not identify any significant deficiencies in internal control.

10 FINDINGS AND OBSERVATIONS

The Committee made the following observations:

- 10.1** The Committee notes and commends Public Service Commission for receiving clean audit outcomes for the 2021/22 financial year in consecutive years.

- 10.2** The Committee notes and compliments the PSC for achieving almost all set targets of the Annual Performance Plan for 2021/22 financial year. The PSC had 23 targets, 22 of which were achieved. This represents 96 per cent achievement of targets. Target on payment of valid invoices within 30 days of receipt was partially achieved within the PSC set targets but remain achieved within the requirement of the PFMA regulations.

- 10.3** The Committee notes the PSC's initiative on the legislative reform project intending to introduce to Parliament a Bill that will allow the Commission to be supported by a Secretariat that is independent of government in order to strengthen its independence. The PSC has concluded with sixth version of the legislative amendments which include the socio-economic impact assessment which will determine the efficacy of legislation. Thereafter, the Cabinet will approve for tabling in Parliament before March 2023.
- 10.4** As per Section 196 (10) concerning the renewable of one additional term of the Commissioner, the Committee urged the Public Service Commission to develop framework to measure performance of individual commissioner in order to have smooth process during the renewability of contract of commissioners in both national and provinces.
- 10.5** The vacancy rate of Commissioners at National and some provinces was a concern to the Public Service Commission since this posts result in underspending of budget over the past two financial years. The Committee was urged to fast track the appointment of one National Commissioner which was vacant since 2019/20 financial year. The Committee was of the view that vacant National Commissioner post has to be filled before March 2023.
- 10.6** The PSC fully advocates for the review of term of the DGs/HODs contract from five years to 10 years as proposed in the National Framework for Professionalising the Public Service only if they are appointed based on merits and capabilities.
- 10.7** The Committee notes that the public service had a total number of 1491 SMS members with interests in companies. It was discovered that 581 of the SMS members did not disclose their financial interest in companies. Among the SMS members who fail to disclose their financial interest in directorship and companies are three Directors-General in national departments and one HOD in the provincial government.

11 RECOMMENDATIONS

The following recommendations are proposed:

- 11.1** The Public Service Commission in collaboration with the Minister of Public Service and Administration should fast track the finalisation of the draft Public Service Commission amendments Bill, which aims at strengthening the independence of the Commission through operating with its own administration outside of the Public Service Act. The Bill should be tabled in Parliament before March 2023, to allow the Committee ample time to process it.
- 11.2** The Public Service Commission should swiftly develop “Framework on the Renewability of the Commissioner Contract” as stipulated in Section 196 (10) of the Constitution and engage with the Presidency and Parliament on the document for the approval. Since each commissioner is responsible for a specific focus area, it would be easy for Parliament and Provincial legislatures to assess performance.
- 11.3** The Portfolio Committee should make follow up with the National Assembly tabling on one National Commissioner post and make determination as to whether the Committee should re-advertise or not. The National Commissioner vacant post should be filled before March 2023.
- 11.4** The Portfolio Committee should write a letter to the Speaker Office, requesting the Speaker to intervene on the Mpumalanga Commissioner post which has been vacant since April 2019. A letter should be written to the Office of the Premier and Mpumalanga Provincial Legislature to request expedition of the recruitment process.

12 CONCLUSION

The PSC was able to spend almost its entire allocated budget whilst achieving almost all its targets, which is commendable. Its performance during the year under review was thus proportionate to budget spent. Accountability within the PSC has improved with responsible leadership and management.

Report to be considered