

30 SEPTEMBER 2013

PHASE 1

CHAIRPERSON: Good morning. Advocate Sibeko, over to you.

ADV SIBEKO: Good morning Chair. Thank you Chair, thank you Commissioner Musi, today we will be leading the testimony of Mr David Griesel from ARMSCOR and the evidence of this witness will be led by Ms Sello.

ADV SELLO: Thank you Chair, as Advocate Sibeko says I shall be leading this witness just to officially place myself on record.

10 CHAIRPERSON: Can the witness take the oath?

(Witness sworn in.)

CHAIRPERSON: Thank you.

ADV SELLO: Thank you Chair. Just by way of preliminary remarks Mr Griesel's evidence will be led much in the same fashion as Mr Jordaan which is by way of a presentation and for that purpose we would request the commissioners to step down here next to, and sit next to Advocate Sibeko to enable them to see the presentation on the screen behind them. Before we do so just to mention that there are two bundles this witness will be working through and it's bundle A ..., bundle 1 and bundle 2 and copies have been placed in the spaces provided for, for the commissioners here next to Mr Sibeko.

25 Bundle 1 contains the witness's official statement signed by him and the presentation that we will shortly view,

30 SEPTEMBER 2013

PHASE 1

and some of the annexures or documents referred to in his statement, and bundle 2 in the main contains the policies that were applicable at the time of the SDPP's to ARMSCOR. With those remarks Chair I would like to say we are ready to lead
5 the witness.

CHAIRPERSON: Thank you.

ADV SELLO: Chair, if I may just make a slight correction Advocate Sibeko points out to me that I made a mistake, it's Griesel-1 and Griesel-2 and I shouldn't refer to
10 them as bundle 1 and 2, otherwise I cause confusion. Chair and Commissioner Musi, once again we apologise for having to relocate you but we believe at times the nature of the testimony of this witness justifies a presentation through a slide presentation as we suggest. Thank you.

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ARMSCOR

WITNESS NUMBER 1 : MR DAVID GRIESEL (Hereinafter referred to as "MR GRIESEL"), GIVES EVIDENCE UNDER
5 OATH

EXAMINATION IN CHIEF:

ADV SELLO: Mr Griesel, could you tell the Commission what your current position is and what you do?

10 MR GRIESEL: Commissioner, my current position is acting general manager of Acquisition at ARMSCOR. I head up the Acquisition Department which is the department that is responsible for all acquisition programmes, acquisition and procurement programmes that ARMSCOR does on behalf of the Department of Defence.

15 ADV SELLO: Thank you. You have included in your, as part of an annexure to your statement a CV, could you take the commissioners through that CV for us to understand on what basis you would be providing the testimony to the Commission today.

20 MR GRIESEL: Commissioner I matriculated in 1974, I obtained a Bachelor of Science in Electronics Engineering from the University of Pretoria in 1978.

ADV SELLO: My apologies. Commissioners for your reference the CV is under tab 1 of Griesel-1. Thank you. You

30 SEPTEMBER 2013

PHASE 1

may continue. There is a request that if possible could you raise your voice so that everybody in the auditorium can understand what you are saying. Thanks.

MR GRIESEL: I'll try. Thank you Chair.

5 ADV SELLO: Just hold on. Have the commissioners ... That would be page 3-6, 36 paginated 36. Thank you Mr Griesel.

MR GRIESEL: In terms of qualifications I obtained a Bachelor of Science in Electronic Engineering from the
10 University of Pretoria in 1978 and a Bachelor of Engineering Honours degree in 1981 also in Electronic Engineering. I completed the Advanced Executive Programme at the University of South Africa in 1992 and also completed the first Systems Engineering Course presented by Professor At Sparrius from
15 the University of Pretoria during the period 1984 and 1984, this actually was an Honours degree course in Systems Engineering which entails the entire acquisition process although I did not do that as an Honours degree because I already had an Honours degree at the time.

20 In terms of professional registration I registered as a professional engineer at the time with the South African Council of Professional Engineers, now EXSA, in 1983. In terms of employment I joined ARMSCOR in 1975 after completing my Matric as a bursary holder, in 1978 I started my
25 employment with ARMSCOR as an engineer in training in the

30 SEPTEMBER 2013

PHASE 1

Telecommunications Division and I was seconded to the University of Pretoria for a period of one year to complete some research programmes at the University.

5 During the period 1979, 1980 I completed my national service in the South African Air Force and from 1981 until 1994 was employed at the ARMSCOR head office in various project management positions in the Telecommunications Division and also in the Electronics Warfare and Telecommunications Products and Technologies
10 Division. In 1994 I was promoted to senior manager in the Telecommunications Division and in 1997 appointed as the divisional head of the Telecommunications Division, managing that division which was responsible for all telecommunications related programmes within ARMSCOR.

15 In 2001 I was appointed assistant general manager in the Acquisition Department responsible for all the electronics divisions as well as the Weapons System Division, and since 2009 I have been acting as the general manager of Acquisitions in ARMSCOR. During this period, the first 13
20 years of my employment at ARMSCOR I was the programme manager of several complex development and production related programmes, primarily in the telecommunications and also in the electronic security environments, starting a number of programmes and managing those programmes throughout the
25 life cycle of the programmes, so during this time I obtained

30 SEPTEMBER 2013

PHASE 1

extensive experience in executing the systems engineering process or the acquisition process as known in ARMSCOR. I also interface at various levels with industry in the SANDF at various levels within ARMSCOR.

5 During 1997 I was appointed as the co-secretary of the SOFCOM, which is the Strategic Office Committee and this was the committee that coordinated all the activities of the Strategic Defence Package programmes. During this period leading up to the signature of the SDPP's I was closely
10 involved and with the high level management of the programmes and assisted both the co-chairman of the SOFCOM with the coordination of the respective programmes as well as with the final consolidation of the results and of the evaluation of the received offers.

15 I was subsequent to the co-author of the Department of Defence and ARMSCOR Acquisition Policy now known as DAP-1000 and this is a policy that regulates all the acquisition activities and describes the acquisition process, and this is the policy that is used as the directive on how to
20 execute any acquisition programme. So, from that exercise I've got a very sound knowledge of the acquisition process and that is my abbreviated CV.

ADV SELLO: Thank you Mr Griesel. Before we start I would like to refer you to volume Griesel-1 and in particular
25 pages 1 to 35 and that according to what's stated in the

30 SEPTEMBER 2013

PHASE 1

(indistinct) on page 1 is a statement of David Griesel. Can you locate the copy? Please refer to page 35 thereof which is the last page of the document, is that your signature appearing on that page?

5 MR GRIESEL: That is correct.

ADV SELLO: Do you confirm for the Commission that it is your statement and do you stand by the contents thereof?

MR GRIESEL: I do confirm.

10 ADV SELLO: Thank you. Before I invite you to take us through your presentation would you briefly explain to the commissioners the relationship between the presentation we are about to see and your statement as it was confirmed on pages 1 to 35.

15 MR GRIESEL: Commissioner, the presentation that I have contains all the information that is in the statement with some additional information which I did deliver to you of including primarily diagrams just to illustrate some issues for clarity but everything that is in my statement is also contained in the presentation.

20 ADV SELLO: Thank you Mr Griesel, when you're ready please take us through your presentation.

25 MR GRIESEL: Thank you Commissioner. My presentation will basically entail an overview of the Strategic Defence Package Programme acquisition process, I will start off with giving an overview of ARMSCOR, what ARMSCOR is about and

30 SEPTEMBER 2013

PHASE 1

then address the standard ARMSCOR policy and practice documentation, then move on to the Special Defence Package programmes and indicate to what extent those programmes followed the standard practices and processes and what
5 deviations of the standard practice and process existed during the execution of this programme. I will then move on to the Special Defence Package Programme initiation process, look at the final offer solicitation, address the SOFCOM which played major role in the Special Defence Package Programme, I will
10 give an indication to the Commission of the respective programme teams or project teams who were responsible for the various programmes in the package process, then I will address the offer evaluation consolidation and the recommendation process that followed on that.

15 Then we'll move on to contract negotiations and the contract authorisation for the SDPP's and then I will conclude with a summary of the process that was followed, starting from the time when the SDPP's were initiated to the point where the contracts were eventually signed. Then I will address two
20 ARMSCOR internal audits that were done post the signing of the SDPP contracts and just indicate to the Commission what the findings of those (indistinct) were.

NOTE: Please note that the witness is not speaking into the microphone.

25 MR GRIESEL: And then I just have one slide as a

30 SEPTEMBER 2013

PHASE 1

conclusion. To start Commissioner ARMSCOR is established in terms of Section 2 of the Armaments Development and Production Act 57/1968 and this is the Act which applied during the SDPP acquisitions. The 1968 Act was repealed in 2003 and it was superseded by Act 51/2003. Section 2 of the 1968 Act states that that established ARMSCOR as a body corporate capable of suing and being sued in its corporate name and I quote from the Act of:

10 *“Performing subject to the provisions of this Act all such acts as are necessary for and/or incidental the carrying out of these objects, the exercise of its powers and the performing of its functions”.*

Section 3 of ...

ADV SELLO: Excuse me Mr Griesel to disturb you. Commissioners for ease of reference the Act referred to, 57/1968 is document 1 in Griesel-2. Thank you, you may proceed.

MR GRIESEL: Section 3 of the 1968 Act states that ARMSCOR’s objectives were, and I quote:

20 *“To meet as effectively and economically as may be feasible the armaments requirements of the Republic as determined by the Minister, including armaments required for export”.*

This slide just indicates the position of ARMSCOR relative to that of the Department of Defence and the intention is to

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30 SEPTEMBER 2013

PHASE 1

indicate firstly that ARMSCOR is controlled by a board of directors and the chairman of ARMSCOR reports directly to the Minister of Defence, at this time Ministry of Defence and Military Veterans during the execution of the SDPP's to the
5 Minister of Defence. ARMSCOR is separate from the Department of Defence, not part of the department and its chairman reports directly to the Minister.

Just to continue with the overview of ARMSCOR, ARMSCOR had the power and still has, to enter into any
10 contract or perform any acts whether in the Republic or elsewhere which may be necessary for or incidental or conducive to the attainment of any of its objects or which is calculated directly or indirectly to enhance the value of the services which I may render in respect of any of the activities
15 contemplated in the 1968 Act as the Minister may from time to time determine.

Section 5 of the Act states that the affairs of ARMSCOR which were managed and controlled by a board of directors, and I just need to point out that the board of
20 directors of ARMSCOR has a dual function, firstly the normal governance functions that the board of directors would have, secondly the board of directors also is the Defence Matériel Tender Board in terms of the Act and this, although, even though this was stated in the 1968 Act it is still the position
25 today in the 2003 Act.

30 SEPTEMBER 2013

PHASE 1

In terms of the 1968 Act ARMSCOR is appointed as the Defence Matériel Acquisition Tender Board. This implies that authorisation of contracts and decisions regarding preferred bidders has to be made by the ARMSCOR board which is the tender board. In terms of standard tendering and contracting procedures ARMSCOR is responsible for all the phases of tendering and contracting process.

I move on to the standard ARMSCOR policy and practice documentation which were applicable at the time of the SDPP's. Firstly the tender solicitation and contracting practice, reference KP-021, this is the standard practice for the requests of proposals, quotations, submissions and orders and it describes the handling of requests for offer and submissions for contract authorisation, so this process basically indicates who is responsible ... For some or other reason these slides keep moving by themselves. This practice indicates the process to be followed by the relative role players or respective role players in ARMSCOR from the time when a requirement is received, offers are prepared, a request for offers solicited from industry, returned and evaluated.

This diagram indicates the two parts of the process starting firstly with the part prior to or up to soliciting offers from industry and it indicates that it starts, the process starts with receiving a requirement from the Department of Defence, those requirements are verified for completeness, if, to ensure

30 SEPTEMBER 2013

PHASE 1

that the requirements are sufficiently complete to allow us to formulate a Request for Offer and value systems to solicit offers from industry.

5 Then ARMSCOR would continue to compile and (indistinct) those structures and statements of work (indistinct) statements of work would form part of the request for offer because those are the sections which would indicate to industry what would be required from them to provide an offer.

10 We would then also compile value systems and the Request for Offer and the value system is, the value system is a document which contains all the criteria, those criteria emanate from the user requirements specification, they are the criteria which would then eventually be used to evaluate the offers received from industry, there are two categories of
15 criteria, critical criteria which are go-no-go, offerers have to meet those criteria in order to be further evaluated and their discriminatory criteria where the offers are adjudicated or evaluated in terms of discriminating criteria, those would be the criteria where they would score more or less and this would
20 eventually be used to determine best value for money as I would indicate later. Then the value system and the RFO's would be approved by the delegated persons inside of ARMSCOR and they would then be submitted to offerers. If we move on to the ...

25 ADV SELLO: Before you move on please refer to your

30 SEPTEMBER 2013

PHASE 1

statement at paginated page 4 and in particular paragraph 3.3 and point out for the commissioners how the slide you are working through now relates to the contents of paragraph 3.3 of your statement.

5 MR GRIESEL: Commissioner, paragraph 3.3 of my statement indicates the process in words and which I'm trying to explain in terms, by means of this diagram, 3.3.1, paragraph 3.3.1 would indicate that where the process would start and this is the point here where the process starts with the receipt
10 of a URS, and it then moves through the process although the diagram is somewhat more detailed and the statement is that the diagram gives all the different activities that need to be followed up to the point where offers are solicited from industry and then the second part is also covered in the statement,
15 indicates the process which is followed from the time that the offers are received back from industry until the time contracts are placed, so when we receive the offers back if I refer to the second part of the diagram, those offers would then be evaluated in terms of the, or against the approved value
20 systems which were developed during the first part of the phase.

Subsequent to the evaluation of the offers an evaluation report would be compiled and I must stress that during the evaluation of the offers there are a number of
25 parties involved, the integrated project teams comprising

30 SEPTEMBER 2013

PHASE 1

members from ARMSCOR and the Department of Defence would form the evaluation, there would be an independent process (indistinct), a person from outside the ARMSCOR Acquisition Department who has the responsibility to ensure that the process as documented is properly followed and then there is also an independent consolidator who independently consolidates the evaluation results of the different members of the evaluation panels.

Once the evaluation report has been completed we should then be in a position to identify a preferred bidder. In the event that the offers require further negotiations to place us into a contracting position we would have to approach the ARMSCOR Tender Board to approve the preferred bidder and then to allow us to enter into negotiations with the preferred bidder.

In terms of ARMSCOR's policy and practices integrated project teams are not allowed to engage at all with bidders during the tendering phase, it's a multisource tender, so we have to, in the case where we need to negotiate first obtain approval for the preferred bidder and motivate why this should be the preferred bidder based on the outcome of the evaluation and then enter into negotiations and those negotiations should be negotiations primarily to clarify certain aspects, to negotiate aspects which would not jeopardise the chances of any one of the other bidders but those negotiations

30 SEPTEMBER 2013

PHASE 1

are intended solely to place us in a contracting position. Once the negotiations have been completed we would then approach the Tender Board again to authorise the placement of the contract and the contracts would then be placed and managed thereon.

CHAIRPERSON: I'm sorry, just for my own understanding before we move to the next slide can you go back to the previous slide, I mean right at the top there you've got something like "Compile WBS and SOW", what does that mean? What "WBS" and "SOW" mean?

MR GRIESEL: Commissioner the "WBS" stands for a Work Breakdown Structure and the "SOW" for a Statement of Work.

CHAIRPERSON: Work?

MR GRIESEL: Those are detailed documents which indicate all ...

ADV SELLO: Sorry Mr Griesel, if you could just go through those acronyms, explain those acronyms slowly, I think they were lost somewhere.

CHAIRPERSON: "Work", I heard the word "work", that's all that I heard.

MR GRIESEL: Commissioner, when we have a requirement for a certain system to be, I will use an example, to be developed, the Work Breakdown Structure would indicate all the activities that needed to be performed for this requirement that we have and those would be the activities

30 SEPTEMBER 2013

PHASE 1

which the prospective offerers would need to provide an offer for. Statement of Work is a list of all the items which have to be produced and which (indistinct) eventually be evaluated, so the Statement of Work would indicate all those deliverables which is required and which should, the offer be costed and they would eventually become payment items.

And the reason for those detailed documents forming part of the request for offer is that those documents will then eventually be translated into a contract because they will then be costed by the respective offerers and the preferred bidder would then be contracted against those items.

JUDGE MUSI: The one is a breakdown structure and the other one is a statement of work.

ADV SELLO: Thank you Chair. Before you move on to the next slide please have reference to paragraphs 3.3.4 and 3.3.5 of your statement, if you could ...

CHAIRPERSON: Of?

ADV SELLO: Of his statement at paginated page 5 Griesel-1. And if you could just read those two paragraphs into the record and explain what you state there with reference to the structure as you have on the slide, thank you.

MR GRIESEL: Commissioner paragraph 3.3.4 refers to the receipt of the RFO's from the respective bidders and the evaluation thereof by the, in terms of the Request for Offer value system. This is the, this point here on the diagram

30 SEPTEMBER 2013

PHASE 1

where we receive the offers, the value systems would be completed prior to ARMSCOR going out on specific offers from industry, those value systems would be lodged with ARMSCOR Procurement Secretariat which is independent from the Acquisition Department and paragraph 3.3.4 basically describes the first part of this process where the offers are evaluated and the recommendations would then be determined regarding the preferred bidder, so the evaluation of the offers against the value system would then result in a preferred bidder being the bidder which scores the highest points in terms of the evaluation.

Paragraph 3.3.5 deals with the second part of this, the bottom part of the slide, indicating that once the evaluation has been completed and the point scoring has been done the ARMSCOR Tender Board has to be approached with the results and the method in which the evaluation was done so that the ARMSCOR Tender Board can then approve the preferred bidder.

ADV SELLO: Thank you. In concluding that part of your evidence before you can move on to the next slide, paragraph 3.3.7 and 3.3.8 you make reference to the ASB and AAC, if you could just read those parts into the record and explain to the Commission. Just to let you know the Commission has previously been introduced to the two structures ASB and AAC, I'm more interested in the point you are driving home in those two subparagraphs.

30 SEPTEMBER 2013

PHASE 1

MR GRIESEL: Yes. Commissioner, once the evaluation of offers has been completed and the results have been consolidated where that's necessary and a preferred bidder emanates from the evaluation of the results we then have to approach the ARMSCOR Tender Board to authorise placement of a contract. In terms of ARMSCOR's normal practice the ARMSCOR Tender Board would not consider authorising placement of a contract until such time as the funding from the Department of Defence has been approved by means of a financial authority.

In order for the Department of Defence to issue a financial authority to ARMSCOR for placement of a contract the acquisition plan for that project has to be approved by the relevant authorisation body within the Department of Defence, depending on whether it's a cardinal or non-cardinal programme. If it's a non-cardinal programme the acquisition plan can be authorised by the AASB, the Arms Acquisition Steering Board, and in the case of a cardinal programme it has to be authorised by the AAC, Armaments Acquisition Council, which is chaired by the Minister of Defence.

Only after the acquisition plan has been approved and the financial ceiling has been established can a financial authority be approved for ARMSCOR to actually place a contract. The evaluation results from the evaluation that was done found its way into the acquisition plan to indicate the cost

30 SEPTEMBER 2013

PHASE 1

of an acquisition, the phasing of the required for the financial authority, it was indicated by previous presenters that the acquisition plan is a non-negotiable mandatory document within the DOD process, it is not necessarily a mandatory document in the ARMSCOR process but it would be impossible for ARMSCOR to continue to the point of authorising a contract if the acquisition plan has not been approved because we would not be able to receive a financial authority from the Department of Defence.

5
10 ADV SELLO: And if you could just comment on what is stated in paragraph 3.3.8 at page 6?

MR GRIESEL: Yes. Commissioner, although the results of the evaluation is included in the acquisition plan which goes into the DOD Milestone Authorisation Forums those forums do not have any decision making power relating to approval of preferred bidder or approval of a contract. The information is included in the acquisition plan as I indicated earlier on purely to indicate that for the selected preferred bidder which has not at that point in time been approved yet, what would be the actual cost of acquisition because the DOD in their environment has to then provide for sufficient funding, phased over the period as required and this also comes from the offers received and they subsequent to that can then only issue a financial authority.

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25 ADV SELLO: Thank you Mr Griesel, if you could

30 SEPTEMBER 2013

PHASE 1

continue with your presentation.

MR GRIESEL: Commissioner the next slide is also not part of the statement but the intention of this slide is to indicate the flow through the three main parties inside of ARMSCOR offers from the point which they have, offers are solicited to the point where they are approved in terms of an order. The three independent parties is the Acquisition Department which is responsible for the acquisitions, then there is the ARMSCOR Procurement Secretariat which is responsible for the issuing of RFO's and also for receiving the RFO's back from industry.

As I've indicated earlier on ARMSCOR Acquisition Department is not allowed to engage in any way with industry or with potential bidders during the tendering and contracting process, even if any additional information is required from industry for clarification that information has to be sought from industry via the Procurement Secretariat. So, if I can briefly go through this it starts with a receipt from the DOD of a URS, as indicated in the previous slide the acquisition Department would be responsible for preparation of the RFO and the value system as I've previously indicated.

This would then be forwarded to the Procurement Secretariat who would be responsible to issue those RFP's to industry, and they would also then advertise if it's a multisource tender the RFP on the ARMSCOR Bulletin.

30 SEPTEMBER 2013

PHASE 1

JUDGE MUSI: No wait, "P", what's the "P"?

CHAIRPERSON: I'm sorry, just before we go on, what does this "RFP" stand for?

MR GRIESEL: I apologise. We interchangeably use the
5 words "RFP" and "RFO". "RFP" stands for Request for
Proposal, "RFO" Request for Offer, it is actually the same
thing. The complete RFP as indicated in previous slide which
contains all the elements required for that RFP is then issued
to industry by the Procurement Secretariat, they also advertise
10 that on the ARMSCOR Tender Bulletin, if it's a multisource
tender the objective of issuing it or publishing it on the tender
bulletin is that any potential bidder can react to the tender
bulletin request and copies of the Request for Offer which
would then allow them to also submit offers.

15 Once the offers are received back from industry
after the closing date indicated on the offers the Procurement
Secretariat would then consolidate all of that and would then
give it to the Acquisition Department where the project teams
would then do the evaluation of those offers against the value
20 systems.

Once that is complete, the evaluation has been
completed and the evaluation report has been compiled the
Acquisition Department, the programme manager within
ARMSCOR would then be responsible to compile a submission
25 to the Tender Board indicating the results of the tender

30 SEPTEMBER 2013

PHASE 1

evaluation, indicating to them whether this is deemed to be value for money with a lot of other information required by the tender board to put them in a position to make a decision regarding the approval of the contract, those submissions also
5 indicate all the salient points which would be included in the contract itself. That submission is then handled by the Procurement Secretariat, they would then issue that, those submissions to the tender board and then in parallel with that they would then also confirm whether the submissions that is
10 presented to the tender board is actually a true reflection of the offers received from industry, and the reason for that being that the ARMSCOR Tender Board, the ARMSCOR board being the highest tender board, do not necessarily have visibility to all the offers received, they would authorise placement of
15 contracts based on the information in the submissions, so the Procurement Secretariat is responsible to ensure that the information presented to the tender board is in fact a true reflection of the information received from the industry.

Once the tender board has approved the
20 submissions for contract placement those contracts would then be eventually issued by the Acquisition Department but they would be countersigned by the Procurement Secretariat and the reason for counter signature by the Procurement Secretariat is to ensure that any additional requirements or changes are
25 recommended or are authorised by the board changes to the

30 SEPTEMBER 2013

PHASE 1

contractual conditions, those contractual, or those changes are in fact incorporated into the final contracts before they get issued to industry, so the Procurement Secretariat has to countersign to verify that the decisions of the tender board has
5 all been incorporated into the contracts.

ADV SELLO: Mr Griesel, my apologies, and just to clarify, what you have just taken us through is the general tendering and contracting process within ARMSCOR?

MR GRIESEL: That is correct. Commissioner, during the
10 presentation specifically relating to the SDPP's I will refer to RFI's and RFO's, RFI's being Request for Information and RFO's being Request for Offer or sometimes called RFP. I would like to indicate where in the acquisition process typically these actions would take place, I think the Commission has
15 been briefed on the acquisition process by Captain Jordaan from the DOD, and this is the same process that was indicated by them, this is the, the top part here is the level 6 DOD process starting with required operational capability and the Staff Target compiled by the SANDF, the Staff Requirement
20 which is the first (indistinct) document compiled by the Department of Defence by the Secretariat and which also contains the URS's, functional and logistic URS's.

Then comes the project study report, development plan, the acquisition plan and eventually the closure report.
25 These files and documents are generated as the programme

30 SEPTEMBER 2013

PHASE 1

proceeds or progresses through the respective phases of the acquisition process. Typically during the period post approval of the Staff Requirement during the project study of the programme which would culminate in a project study report being submitted to the DOD forum the intention amongst others of the project study report is to make a very important decision called the "make-or-buy" decision.

This is after the requirement has been sufficiently clarified and the selection, selected option sufficiently specified. A decision has to be made whether that specific defined requirement can be bought somewhere, whether it exists as is or whether something exists which would be able to completely meet the DOD's stated requirements, or whether we would need to go into a development phase to develop such a product system.

So, the project study report would then indicate whether this make-or-buy option should be, would be recommended then. To enable that decision to be made we need to obtain information from industry worldwide as to whether something like this exists or not and that is the intention of the request for information, so ARMSCOR would be responsible to solicit information from industry and the form that this RFI takes it resembles a Request for Offer although the RFI's intention is not to place us in a contracting position but rather to elicit sufficient information from industry to

30 SEPTEMBER 2013

PHASE 1

enable us to make a decision as to whether a product system exists which can meet the requirements of the DOD.

So, to solicit RFI's, a Request for Information from industry we would also develop a value system and the responses from industry would be evaluated against that value system but the intention of this is to determine whether from a functionality point of view those product systems do exist and do demonstrate their required functionality.

So, ARMSCOR would solicit requests for information from industry during the product study phase and the results of that Request for Information would then find its way into the project study report and would inform the make-or-buy decision that is recommended in the project study report.

The programme would then progress assuming that it would take the development route, this would indicate the full development route if the buyer option is chosen, if something exists, skip this and move directly into the point where we would actually solicit offers, but if the develop process is to be followed the progress through the respective phases leading up to the acquisition study and during this phase ARMSCOR would then solicit offers from, final and binding offers from industry.

The results as I previously indicated, the evaluation of the offers received from industry would then find its way into the acquisition plan purely to allow the DOD to approve the financial ceiling and the required funding for that specific

30 SEPTEMBER 2013

PHASE 1

programme which we're embarking on. Once the acquisition plan has been approved the DOD would then be in a position to issue a financial authority to ARMSCOR. The RFO information or the evaluation of the RFO against the value systems would then be submitted to the tender board who would approve the offer and the contract to be placed and that contract would then be issued to industry and just is just to indicate the inter-relationship between the ARMSCOR process and the DOD processes.

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10 ADV SELLO: Thank you. Before you move on to the next slide please inform us about the ARMSCOR baselines, very briefly what they are and what purpose they serve.

MR GRIESEL: Commissioner, I actually have a later slide which better illustrates that. Would you like me to do it now, two slides on.

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20 ADV SELLO: If you think that your next couple of slides, two slides on will demonstrate, or will give a better understanding as to what the baselines are and what purpose they serve in the context of what you have just explained then please do so.

MR GRIESEL: Commissioner very briefly I have a later slide which contains more details and is actually intended to explain this. I think Captain Jordaan also during his presentation indicated to the Commission the systems hierarchy, the seven levels of the systems hierarchy and

30 SEPTEMBER 2013

PHASE 1

typically where ARMSCOR would contract at level 5 of the systems hierarchy, in other words a product system level.

5 The VB-1000 policy at the time of the SDPP's and the DAP-1000 policy today elaborates in great detail on the respective milestones which had to be achieved within the DOD environment at level 6, but also the baseline documents which are ARMSCOR documents which have to be approved by ARMSCOR at level 5. Where the DOD milestone document at level 6 are more governance documents, to reconfirm the requirement, to give indication of the costs, to give indication of quantities, timescales, availability of budget and so forth the intention of the ARMSCOR baseline documents they are more technical documents where we have standards which dictate what has to be completed and what has to be done during each 10 of these phases of this production process before we are allowed to continue into a next phase, so we would start with establishing a number of baselines and the entire approach of ARMSCOR is to do baseline management. 15

We would start off with the requirements baseline 20 and this is at the point where the requirement is normally, moves into the ARMSCOR domain to verify whether that requirement is sufficient, where all the information is contained in the requirements which we have received and this happens during the concept phase. We would then move on to the functional baseline where the selected option has been 25

30 SEPTEMBER 2013

PHASE 1

determined and typically A-specifications which are very high level system specifications would be finalised, and as we move through the process we would need to establish baselines, allocated baselines, product baseline, manufacturing baseline, interim operating baseline and the final operating baseline as we move through these phases, and the intention of establishing these baselines is to ensure that everything that needs to be addressed and completed during any specific phase is sufficiently done, and those baselines are typically then also audited by the Quality Assurance Department of ARMSCOR to ensure that everything has been done and this is to ensure that as we continue through this risk reduction process that we do, that we address issues at the correct time, we do not come to the point where we have industrialised something and then we remember that (indistinct), we're going to maintain it, just as an example.

ADV SELLO: Mr Griesel, I apologise to interrupt you but just so we don't lose you could you, as you work through the different baselines can you remind us what the acronym stand for and slowly so that we can make notes for ourselves. Thank you.

MR GRIESEL: Yes Ma'am. Can I continue to the next two slides further which are actually better illustrated. If you'll allow me, would allow me Mr Commissioner to just continue, I will get back to that slide, I think two slides from here. The,

30 SEPTEMBER 2013

PHASE 1

just continuing with the standard practices and policies within ARMSCOR APROC-097 which applied at the time of the SDPP's is the standard practice for selection of contractual sources. What this practice does, it details the process to be followed which would result in best meeting ARMSCOR's need as described in the relevant Request for Proposal and ensure that the source selection process for the impartial, equitable and comprehensive evaluation of each offerer's proposal and minimise the cost of the selection process.

10 This practice contains amongst others the roles and responsibilities of evaluators and process assurers, guidelines with respect to the determination and evaluation criteria and generation of an RFO subsequent to evaluation of the received offers, so in other words what this practice describes is it provides guidelines on how a Request for Offer should be compiled, it describes how a value system should be compiled, how the two different categories of criteria should be determined, it describes the process of evaluation of the received offers against those criteria, what should be taken into consideration, for example how risk should be factored into the evaluation and it also then describes the roles of the different parties, the roles of the IPT, Integrated Project Team, the role of the process assurer and also the role of the independent consolidator and this is all to ensure firstly that the value system is properly and sufficient comprehensively

30 SEPTEMBER 2013

PHASE 1

developed to properly evaluate the offers and to ensure that once those offers have been evaluated that it is a true reflection of the requirements of the user as stated in the user Requirement Statement. It also then details the process and
5 allocates responsibilities to the different parties to ensure impartiality as far as the evaluation is concerned. KB-1000 is the ARMSCOR ...

ADV SELLO: Apologies Mr Griesel. For the record Commissioners the policy Mr Griesel has just referred to is
10 item 6 and Griesel-2 pages 185 to 214. Thank you.

CHAIRPERSON: Just hold on, page?

ADV SELLO: It's page 185 up to page 214 of Griesel-2. Thank you Mr Griesel.

MR GRIESEL: Chair, KB-1000 is the ARMSCOR policy or
15 was the ARMSCOR policy for acquisition and weapon system management support and it was dated 1st of May 1995, it's subsequently being superseded by (indistinct)-1000. Where VB-1000 very comprehensively describes the different baselines, the milestone documents, the different phases of the
20 process the KB-1000 document focuses more on the ARMSCOR part of it, on the baselines which need to be established, it addresses baseline management and the important thing is that it is completely aligned with the VB-1000 because we are, those documents are actually addressing the same process and
25 the same baselines, so it goes further than the VB-1000

30 SEPTEMBER 2013

PHASE 1

because it's an ARMSCOR specific document and it also describes the composition of baseline review boards, these being the board which would approve the baselines at level 5 in the ARMSCOR process and would allow the ARMSCOR Project Team to continue or to proceed from one phase to the next phase after the baseline has been approved.

And this is the slide which I would like to use to illustrate the inter-relationship between the level 5 and 6 processes. I think the level 6 process has been described in great detail by a previous presenter, starting with the ROC which is the Required Operational Capability proceeding to a Staff Target which is "ST", "SR" is the Staff Requirement and the Staff Requirement would then also contain the URS, basically two URS's (indistinct) User Requirement Statement and the Logistics User Requirement Statement. Then after the project study has been completed the project study report, the "SR", Study Report, then the development plan, "DP", the acquisition plan "AP" and the eventual closure report. That, those are the milestone documents at level 6.

Level 5, baseline documents which are ARMSCOR documents generated by ARMSCOR and also approved by baseline review boards which are purely ARMSCOR bodies, "RBL" is the requirements baseline which is the first baseline to be established after we had received the requirement from the DOD and this is where the programme enters into the

30 SEPTEMBER 2013

PHASE 1

ARMSCOR domain. Then the "FBL", that would be the functional baseline and this would be the baseline which would contain the high level specifications like the A-Specification which basically just describes at a high level what the chosen system, product system performance should be.

Then as we progress through the definition phase where this selected option is properly defined the allocated baseline is intended to contain more detailed specifications in terms of the systems engineering process, typically B and C-Specifications which are specifications which are sufficiently detailed to allow us to enter into a contract with industry to develop a product or a product system, meeting those detailed specifications, so that would be the allocated baseline.

Once the design and development process has been completed we would then enter into the industrialisation phase at the product baseline, the "PBL" has to be established and the PBL would then indicate all the detailed specifications amongst others of this system because at the end of the PBL we would then also have the final development models which fit, form and function, meet the user requirements which can also be the environmental requirements although they are still manufactured in a laboratory environment.

We then go to the industrialisation phase where those selected models or developed models are then industrialised to allow it to enter into production. It is also

30 SEPTEMBER 2013

PHASE 1

during this phase where all the test equipment typically would be developed and a manufacturing baseline is then established. A manufacturing baseline's intention is to indicate that this system is now sufficiently mature to enter into production. You
5 would then go through the production phase. Here at the end before it's commissioned an interim operating baseline this is where the logistic plans would then be evaluated to ensure that this system is sufficiently maintainable by means of operational test and evaluation and once that has been completed and the
10 system has been in use typically for two to three years a final operating baseline would be established and that's the point where the Defence Matériel Division would hand over to the respective arms of service.

ADV SELLO: Thank you Mr Griesel. Commissioners may
15 I tender my apologies, I confused the commissioners, the KB-1000 which the witness is speaking to is actually from pages 91 of Griesel-2, kindly make a correction on the notes you have made for yourselves, I apologise for the error.

CHAIRPERSON: Page 91?

20 ADV SELLO: 91 of Griesel-2.

CHAIRPERSON: Thank you.

ADV SELLO: And that would be 91 to 103. Having made that correction Mr Griesel please refer to page 97 of Griesel-2 and that should, if the numbering is correct, be the KB-1000.

25 MR GRIESEL: Can you just repeat, what do I need to

30 SEPTEMBER 2013

PHASE 1

confirm?

ADV SELLO: I wanted to make sure you've located the page. What is set out in paragraph 6.3 of that document at page 97, does that accord with what you have described and the slide 14?

MR GRIESEL: Exactly Ma'am, except that in my slide the very first baseline is referred to as a requirements baseline, in VB-1000 they refer to it as a Requirement Statement Baseline, "RSBL", it's the same thing.

ADV SELLO: Thank you for pointing that out to us. You speak of the various baselines, is it fair to conclude that as they appear on the slide it's the order in which the baselines are reached?

MR GRIESEL: Yes, that is true.

ADV SELLO: Now just to clarify issues for us, are baseline, these baselines, are they documents, what are they, and how does one determine whether or not all the baselines have been satisfied in respect of each project.

MR GRIESEL: Yes Commissioner, the baselines are established by means of formal baseline documentation, there is a military standard (indistinct) Military Standard 3 which describes what each baseline entails, what has to be presented for establishment of each of those baselines and so the baselines are established by means of the formal baseline documentation which is submitted to the Baseline Review Board

30 SEPTEMBER 2013

PHASE 1

and the Baseline Review Board is a formally constituted ARMSCOR body that then reviews the baseline and then approves the baseline, only once a baseline has been approved can we then proceed to the next phase of the process.

5 ADV SELLO: From what you have just said can we conclude that absent approval by the Baseline Review Board the project is not able to proceed? I will rephrase that. Is it imperative that the Baseline Review Board approve each baseline in order for the project to proceed to the next level?

10 MR GRIESEL: Yes Commissioner in terms of the ARMSCOR Policy where ARMSCOR follows a baseline management process we have to, all baselines as indicated there have to be approved before from an ARMSCOR point of view we are entitled to proceed from one phase to the next
15 phase, that's true.

ADV SELLO: Thank you Mr Griesel, you may continue with your ...

CHAIRPERSON: I'm sorry before we continue, whilst we are still dealing on the baselines I see here, I'm no quite sure what
20 does this "RBL" and "NBL" mean.

ADV SELLO: Mr Griesel, if you could just take us through again, through the various baselines and particularly what each acronym stands for and take us a bit slowly through that we'll appreciate that.

25 MR GRIESEL: Commissioner, if I may start with the first

30 SEPTEMBER 2013

PHASE 1

one down there, the RBL, in VB-1000 still it is referred to as the "RSBL", Requirements Statement Baseline, we call it the requirements baseline, it is the same thing. This is where the ARMSCOR process is initiated, so that that baseline we establish, indicating that the requirement is comprehensive enough for us to proceed into the systems engineering process, in other words that sufficient information is contained in the requirement that we have received.

If not, we would then refer back to the DOD or to the SANDF and request additional information for clarity. This would be part of the concept phase and just to remind the Commission that the concept phases, once a required operational capability has been stated in operational terms, in other words this is the user stating that I want something that could do the following for me without specifying what this thing has to look like, but requiring a capability only, we would then go into a concept phase where different options are developed which could potentially meet that capability requirement, those options are then weighed up against each other, they are evaluated and a best option is then selected, that is at the end of the concept phase these are where the different concepts are evaluated and the best concept is selected.

And the next baseline would be the functional baseline, "FBL", where the selected concept would then be identified and a high level specification, typically an A-

30 SEPTEMBER 2013

PHASE 1

Specification for that selected concept would then be developed. So, at the end of this phase when the functional baseline has been established we know what it is that we are going to continue with, in other words the user might have indicated that they need something that can deliver a certain amount of explosives over a certain distance, the different options would have been an artillery gun, an aircraft dropping a bomb, a missile system, we have now narrowed that down to an aircraft dropping a bomb, so now we have high level specification of that aircraft. During this definition phase we would then further define exactly what this selection option should look like.

At the end of this phase we would then establish the allocated baseline, that is what "ABL" stands for, the allocated baseline would contain sufficient information in terms of specifications to allow us to contract industry to do a development for us of that system, so it's sufficiently detailed now to enter into a development programme, so in the ABL we would then have these specifications which are much more detailed specifications.

Then we would proceed through the design/development phase where we would typically contract industry to do the design and development for us and at the end of the development phase this is where they stop in the laboratory where we would typically have an engineering

30 SEPTEMBER 2013

PHASE 1

development model which is the product which looks like the final product and also meets the environmental requirements of the final product, but that's not been industrialised so the "PBL" stands for product baseline which contains all that information that comes from the development process. We would then enter into an industrialisation phase once the PBL has been formally approved and once the industrialisation of this product system has been completed we would then establish a manufacturing baseline, so all the manufacturing (indistinct) would now be complete at the establishment of that baseline and we can then go into serious production with this system.

And at the end of the evaluation by the user and all the logistics elements have been finalised we would establish an OBL which is an operating baseline, that operating baseline would allow the project to be handed over from the projects environment into the user environment, so now everything is there, the product system is there, the logistics are there, the training is there, the facilities are there, everything is there.

ADV SELLO: Thank you Mr Griesel, you may continue.

MR GRIESEL: Commissioner, I'm still with the ARMSCOR policies and practices, the next policy is the KP-019 that was applicable at the time of the SDP's and this ...

ADV SELLO: Commissioners, if I may point out this particular policy is currently not part of your bundle but it shall

30 SEPTEMBER 2013

PHASE 1

after lunch be included in Griesel-2 and I will point out at what pages it is to be found. Thank you .

MR GRIESEL: KP-019 at the time of the SDP's superseded now called A-Standard (indistinct) 001. It contains
5 all the delegations, ARMSCOR board of directors being the highest authority in ARMSCOR has all the powers to approve anything and they delegate certain powers to subservient bodies and personnel or functionaries within the organisation, so the KP-019 contains all the delegations from the ARMSCOR
10 Board into the organisation itself and it contains different sections, the first section being the delegations with respect to acquisition functions and that section of KP-019 would indicate who has the authority to approve contracts up to certain values depending on which value, there are two subservient
15 authorisation bodies to the ARMSCOR board itself, so these delegations would then indicate what powers those authorisation bodies have to approve contracts, to amend contracts and to also to extend contracts where necessary.

There are other sections in this document which is
20 more (indistinct) sections, those would indicate who has the powers to sign certain documents, who signs certain expenditures and sign leave forms and things like that, but the important part as far as this is concerned are the delegations with regards to acquisition matters.

25 ADV SELLO: Chair, what Advocate Solomons is pointing

30 SEPTEMBER 2013

PHASE 1

out to me is it would appear that KP-019 is in the bundle at page 134, that is correct. Chair what we will do is to attend to the index itself to make sure that the documents are properly described and can be easily located in the bundle.

5 CHAIRPERSON: Page 134 of which bundle?

ADV SELLO: Griesel-2. I'm indebted to Advocate Solomons. Mr Griesel, if you could continue.

MR GRIESEL: Commissioner, the last slide in this section relating to policies is VB-1000 although it's a joint
10 DOD/ARMSCOR document, I think VB-1000 was dealt with at length by one of the previous presenters. VB-1000 is the general policy for the management of Category 1 Matériel acquisition process and this describes the approach to be followed by members of the defence family in the acquisition of
15 weapons systems, it contains amongst others the mandates and roles of ARMSCOR and in VB-1000 documents, still the SADF which is now become the SANDF and the Department of Defence in the acquisition process, and this is a policy to be applied with regard to the management of the acquisition
20 process of armaments for Category 1 Matériels, all the phases of the process. And the previous slide which I showed indicated the milestones at level 6, DOD milestones and baselines at level 5 which are ARMSCOR baselines are all described in VB-1000.

25 And then if you look at the SDPP's now that we

30 SEPTEMBER 2013

PHASE 1

have looked at the policies and practices, standard policies and practices within ARMSCOR, if we look specifically at the Special Defence Package Programme where were there deviations from those standard policies and practices. And

5 firstly APROC-097 which is the practice relating to the selection of contractual resources, those, that is the practice which details the, or gives, provides guidance with regards to the development of value systems and who is responsible for what in this process of developing value systems, developing

10 RFO's, approving the RFO's, doing the evaluation, approving the evaluation reports.

The guidelines of APROC-097 in terms of what a value system should look like, what the criteria should look like, those were followed in the SDPP process, but there was a

15 deviation in respect of the responsibilities of ARMSCOR programme manager and the project teams as detailed in that document in the sense that the practice dictates that the process should be led by ARMSCOR and only provides for participation by the DOD on evaluation panels.

20 It does not allocate any approval responsibility as far as value systems for RFO's are concerned to the DOD because this is strictly an internal ARMSCOR process and provides for participation by DOD because DOD members on the criteria development panels and on the evaluation panels

25 actually bring the user's perspective into the development of

30 SEPTEMBER 2013

PHASE 1

those criteria.

In the SDPP process some of the value systems, and this will be dealt with in greater detail by the respective programme managers who will present after me, some of the value systems and evaluation reports were finally approved and signed off by the Department of Defence and not by ARMSCOR, this is a deviation from the standard ARMSCOR process.

ADV SELLO: In regard to the projects, the SDPP projects are you able to point out which projects had their value systems and evaluation reports approved and signed off by the DOD and which were approved and signed off by ARMSCOR, are you in a position to point that out?

MR GRIESEL: Commissioner I'm not in a position to give you a definitive answer, I know that the submarine and Corvette programme value systems and evaluation reports were signed off by the DOD and not by ARMSCOR, I unfortunately cannot vouch for the others.

ADV SELLO: Thank you. As you pointed out we will take it up with the respective teams, thanks. You may continue.

MR GRIESEL: As far as the delegations are concerned KB-019, in terms of the ARMSCOR delegations in the section relating to acquisition matters ...

CHAIRPERSON: I'm sorry, just before we pass this point are you in a position to give us any reason, if you are aware of

30 SEPTEMBER 2013

PHASE 1

any, why this value system and evaluation reports were signed by officials of DOD instead of having been signed by ARMSCOR officials?

MR GRIESEL: No, I'm not in a position to give you a
5 reason for that. There's no, as far as my knowledge goes, approved document from a higher authority indicating that this would relieve ARMSCOR from that process so that it should now be done by the DOD. I think this is also why there was no consistency, some of these were signed off by ARMSCOR and
10 some were not.

JUDGE MUSI: Just to follow up on that, what we, what you now call deviations in terms of what we have in front of us, these were actually directives that were issued that differed from the standard policies, is that the case?

MR GRIESEL: No Commissioner, there were some ...
There was a directive, I will get to that directive later on, which amended the, some of the standard processes in terms of evaluation but it did not, it did not necessarily amend all the ARMSCOR or relevant ARMSCOR policies and practices that
15 applied during the time of the SDPP's, so these were delegations and this is one of the which is called deviations, this is one deviation that exists from the ARMSCOR policy where ARMSCOR's board would be responsible to approve preferred bidders and would also be responsible to finally
20 approve the contracts on the preferred bidder, in case of the
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30 SEPTEMBER 2013

PHASE 1

SDPP's it did not happen and the preferred bidders were approved outside of their ARMSCOR domain and the final contracts were also approved outside of ARMSCOR.

JUDGE MUSI: What I'm trying to get at, for instance on this
5 APROC-097 it states, state what the practice is on, for selection of contractual sources, but then you say at bullet point 2 that in respect of the SDPP that was deviated from isn't it? What appears above is the practice, the ARMSCOR practice but that bullet point 2 shows that this was a deviation from the
10 standard practice.

MR GRIESEL: That is correct Chair, what this bullet indicates is what it should be, the second bullet indicates why it is a deviation. This bullet indicates that ... Sorry.

JUDGE MUSI: I was going to say now who brought in the
15 deviation, how was it brought about, the deviation, was there a directive or what happened?

MR GRIESEL: Not to my knowledge Chair, I have not been able to find any directive or (indistinct) this document indicating that there should be this deviation.

20 JUDGE MUSI: Thank you.

CHAIRPERSON: Sorry, the last one from me, did I understand you to be saying that the normal practice is that the preferred bidders should, or ARMSCOR is the one who picks out the preferred bidders, that is the normal procedure. And
25 did I understand you to be saying that in the case of the

30 SEPTEMBER 2013

PHASE 1

SDPP's that was not the case? Do you know the reason why?

MR GRIESEL: Chair, I would deal with that specific deviation and the approval process at length later in my presentation as to exactly how the preferred bidders, what the process was followed and also what process was followed with the final contracting or approval for contracting, there are two complete sections dealing with that, but as I have indicated except for a ministerial directive which I will address indicating that the evaluation should happen at different levels which is outside of the normal ARMSCOR processes, that would constitute an authority to do it in that manner, it does not necessarily address which body has to approve the preferred bidders and which body has to approve the final contracts.

ADV SELLO: Thank you Mr Griesel, you may continue.

MR GRIESEL: The next deviation relates to VB-1000, firstly this is not necessarily a deviation ...

ADV SELLO: I apologise, according to my copy you appear to have skipped a slide, are we not supposed to be on slide 19 now?

MR GRIESEL: That actually addresses the deviations but in terms of KP-019 the ARMSCOR directors being the Tender Board has the same authority that can authorise preferred bidders and also authorise contracts to be placed on the identified preferred bidders. In the case of the SDPP's as I indicated now I will deal with that in much greater detail but

30 SEPTEMBER 2013

PHASE 1

there was a deviation in the sense that the preferred bidders were recommended into DOD forums being the AASB, the AAC and a Minister's Committee and eventually authorised by Cabinet and not by the ARMSCOR Board and the contract placement was also not authorised by the ARMSCOR Board but by Cabinet and Cabinet authorised those contracts post negotiations by a negotiating team which had been appointed by Cabinet and I will get to that, I'll address that issue. Is that okay Ma'am?

10 ADV SELLO: Thank you.

MR GRIESEL: In terms of VB-1000 which is the general policy of the Category 1 Matériel acquisition the first, this is not really a deviation but at the time of the SDPP's VB-1000 being a document which dated back to 1992 does not necessarily reflect the structures or the approval bodies which existed within the DOD at the time, it still reflected in these structures which existed at the time prior to the Secretariat for Defence and the Defence Acquisition Department coming into being, so whereas the bodies that authorised the different milestone documents were the AACB, AASP and AAC which were bodies which were created post the approval of the MODAC-1 document which I believe has also been addressed, the VB-1000 structures still addresses the previous authorisation bodies being, and these are Afrikaans acronyms, "PKK" for *Projek Koördineringskomitee*, Project Coordinating

30 SEPTEMBER 2013

PHASE 1

Committee which would be the equivalent of the AACB but which would be chaired with the AACB as chaired by the Chief of Defence Matériel, this body would have been chaired by the Chief of Logistics. Then there was the "VBR",
5 *Verdedigingsbevelsraad*, Defence Command Board which would have been chaired by the Chief of the SANDF, in the current structure that would be equivalent to the AASB which is chaired by the Secretary for Defence. And then the *Verdedigingsbeplanningskomitee* which is the Defence Planning
10 Committee chaired by the Minister of Defence which is equivalent to the current AAC, Armaments Acquisition Council which is also chaired by the Minister.

In terms of the VB-1000 and as I indicated earlier on the VB-1000 does stipulate certain non-negotiable
15 (indistinct) documents which in terms of the ARMSCOR process is important for us but is not a mandatory document for ARMSCOR to continue. In the VB-1000 it indicates that the two non-negotiable milestones of the Staff Target and acquisition plan, when we executed the SDP's at the time of contracting
20 acquisition approved acquisition plans did not exist for the programmes.

ADV SELLO: Do you know when the acquisition plans for each programme were approved?

MR GRIESEL: I cannot say offhand Commissioner but
25 those that are available I just didn't (indistinct).

30 SEPTEMBER 2013

PHASE 1

ADV SELLO: Thank you.

MR GRIESEL: It was post the actual approval of the contracts in most of the cases.

ADV SELLO: Sorry I missed that, you say it's post?

5 MR GRIESEL: In, I cannot say in all the cases but in most of the cases the acquisition plans were approved post contracting.

ADV SELLO: Thank you.

10 MR GRIESEL: May I continue? The mandatory acquisition plan in the SANDF or DOD environment did not necessarily constitute a whole point from a policy perspective which prevented ARMSCOR to authorise a contract and as I've previously indicated the importance of the acquisition plan to ARMSCOR is that ARMSCOR cannot proceed to authorise a
15 contract or place a contract on industry if we do not have an approved financial authority from the DOD. In order for the DOD to obtain a, or to issue a, or to approve a financial authority the acquisition plan has to be approved but in the case of the SDP's there was no financial authority, the normal
20 programmes, the programme could not continue if the DOD as not sufficient planning on the budget to actually execute the programme. We entered into the SDP (indistinct) with no money on DOD budget and the financing of the programmes was the subject of negotiations with various bodies which would
25 provide financing, so there was not a case of being Special

30 SEPTEMBER 2013

PHASE 1

Defence Account money on budget which could then be appropriated to ARMSCOR by means of a financial authority before we could enter into a contract, in this case there was none and we were also not in a (indistinct).

5 ADV SELLO: If you could clarify for us, you indicated that before ARMSCOR can proceed resulting in conclusion of contract a financial authority is required, am I correct, and now you've just indicated that there was no financial authority for the SDPP's prior to contracting, is that correct?

10 MR GRIESEL: That's correct.

ADV SELLO: On having that as a background can you explain to the Commission how then ARMSCOR was able to proceed with the SDPP's in the absence of a financial authority?

15 MR GRIESEL: Commissioner, financial authorities were eventually issued but it was a paper exercise because in terms of the ARMSCOR system we cannot have a contract of industry on our system if there's no financial authority. The SDPP process was embarked upon without any funding or budget or
20 Special Defence Account budget which would normally be the budget which is required for the acquisition programme and during the period of negotiation post appointment of the preferred bidders and prior to contracting part of the negotiations went about negotiating financing (indistinct) or
25 financing agreements with financial institutions internationally

30 SEPTEMBER 2013

PHASE 1

and this was done primarily by Treasury, by Department of Finance, people who were part of the International Offers Negotiating Team, so they negotiated financing for the SDPP's, once those financing agreements had been signed the contracts were approved, authorised by Cabinet, by ARMSCOR. Post that Department of Finance, and this is actually just a technicality, they, the required funding was reflected on the DOD budget and the DOD called that quasi-money because it was not really money on their budget but it was reflected on the budget to allow them to issue a financial authority to ARMSCOR which would allow us to actually register the contract on our contract administration system, but it is not, it is not Special Defence Account money which was on the budget, which is under DOD control, this money was ring-fenced and on an annual basis it was reviewed in terms of a model that was developed by a company called (indistinct) and Reed which was contracted by the (indistinct) as part of the financing negotiations.

So, we eventually when we, when the programmes were running we did have a financial authority but it was not a financial authority that existed at the point of contracting, it was done later as a technicality to allow us to register the system and it was done with quasi money, it was not really DOD money.

ADV SELLO: Thank you, you may continue.

25 MR GRIESEL: Chair, then we come to DOD policy

30 SEPTEMBER 2013

PHASE 1

directive number 4/147 which is a policy directive from the Ministry of Defence dated 8th of August 1997 and this policy directive addresses the Ministry of Defence guidelines and management procedures for dealing with foreign initiated international government-to-government defence equipment offers and this was done specifically at the onset of the SDPP's.

ADV SELLO: Commissioners, this particular policy has been referred to by previous witnesses but for ease of reference it included Mr Griesel's bundle and it appears at Griesel-1 pages 46 to 52.

CHAIRPERSON: Page?

ADV SELLO: 46 Chair to 52, Griesel-1. Thank you Mr Griesel, you may continue.

MR GRIESEL: Chair, policy directive 4/147's aim was to provide the MOD policy guidelines and management procedures for dealing with these foreign initiated international government-to-government offers and it states that it is also applicable to ARMSCOR. The policy directive 4/147 outlined an acquisition strategy to incorporate the, amongst others the following; firstly that equipment offers, and this pertains specifically to the SDPP's and I must point out that this policy directive did not amend or modify existing ARMSCOR policies or practices because there were other programmes which were running concurrent to the SDPP's which follows the standard

30 SEPTEMBER 2013

PHASE 1

ARMSCOR policies and practices and I will give a few examples later. It states that:

5

“The MOD requirement statements are to be at least have been progressed to a functional baseline or beyond the individual equipment elements of an offer are to be comprehensive enough to be evaluated against a corresponding functional baseline”.

10

And these were all points which were highlighted by a previous presenter.

“Individual elements are to be able to be evaluated against competitive offers via application of the same value systems that are developed for MOD functional requirements”.

15

And it also states that:

“(Indistinct) of all decisions is to be ensured”.

20

What the importance of this MOD policy directive is, is that it stated prior to translating an offer into separate standard armaments acquisition projects an assessment procedure incorporating the following iterative multi-tiered approach is to be followed, and this basically authorises some of the deviations from our standard process where this directive indicates a three-tier evaluation and three tiered value systems that could exist for the evaluation of the SDPP's.

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It indicates a first order evaluation or a value

30 SEPTEMBER 2013

PHASE 1

system where an appointment by a DOD workgroup to undertake strategic implications (indistinct) offer, the first order value system incorporating military evaluation of (indistinct) government, recommendations regarding political, interdepartmental and intradepartmental involvement are to emanate from the MOD evaluation, so this basically mandates a first order value system and a first order evaluation to be done at a strategic level.

It then indicates a second order value system which in terms of that policy directive implementation of recommendations via representative MOD Evaluation Team to develop a second order value system and the recommendations regarding project teams and project management requirements to bridge the gap between elements of the offer and separate standard acquisition projects are to accompany the second order value system.

This second order value system that the policy directive provides for eventually is the value system which was used by the SOFCOM which I will detail later on to perform the consolidation of the evaluations which were done by the respective project teams addressing the technical, the defence industrial participation and the financing categories of the offer, so there was a second order value system which was used to consolidate all those outputs.

It then provides for a third order value system

30 SEPTEMBER 2013

PHASE 1

where project teams must develop a third order value system for the individual elements of the offer in accordance with the second order value system and the third order value systems were those value systems which were used by the respective project teams compiled per project to perform the technical evaluation of the offers to perform the NIP and DIP evaluations as well as the financing offers which were received. That was the third order value system, so those were mandated by means of the DOD policy directive.

10 The impacts of this policy directive, firstly it was only relevant to international defence equipment offers and as I indicated not to other programmes which were running concurrently with ARMSCOR, there were numerous non-SDP acquisition programmes that were being managed by ARMSCOR in parallel with the SDPP's, this policy did not amend our standard policies and practices as far as those programmes are concerned and just for the benefit of the Commission some examples, although there were numerous of those programmes running at that point in time, some of the programmes which were cardinal programmes which were running at the time for which the policies and practices were not amended were for example the acquisition of the ASTRA trainer aircraft which actually started way prior to the SDPP's but which was still in production at the time, so the programme had not been completed, the upgrade of the C130 transport aircraft which

30 SEPTEMBER 2013

PHASE 1

was a foreign contract placed on a foreign company to upgrade the avionic system of the aircraft and also the Rooivalk combat support helicopter which started circa 1992 and was completed about two years ago, so those programmes were all running at the time of the SDPP's and they were running in accordance with the standard policies and practices.

Commissioner I will now, I have covered the policies and practices, the standard policies and practices that existed, what the deviations from those were and I will now continue to indicate to the Commission the process that was followed with the SDPP's starting with the initiation of the SDPP's carrying it right through to the point where the contracts were placed.

Firstly just to indicate that prior to the inception of the SDPP acquisition as a package programme ARMSCOR was in the process of procuring various of the product systems that eventually were taken up into the SDPP's on behalf of the DOD. Before these processes were completed the individual procurement processes were suspended at various stages of the processes in 1997. What I'm trying to say with that bullet is there were various programmes which were at various stages in the acquisition process, some earlier than others which addressed the types of equipment which eventually were taken up into the SDPP acquisition package, those individual programmes which were being executed in terms of the

30 SEPTEMBER 2013

PHASE 1

standard policies and practices, both VB-1000 and the ARMSCOR part of it were all suspended in 1997 and they were then eventually taken up into the SDPP's.

5 It was decided by the DOD that the individual procurement processes which had been initiated by ARMSCOR on behalf of the DOD prior to 1997 would be superseded by the package approach reflected in the SDPP's and those which were reflected was firstly the, what eventually became the light utility helicopter, there was a programme initiated to replace
10 the Alouette helicopters in use by the SAAF and for those we had already progressed to a point where a Request for Information had been issued to industry internationally to first seek information regarding helicopters that could replace the Alouette.

15 What eventually began the Corvette programme in the SDPP's, that process to acquire new Corvette's for the Navy was initiated in 1992, it progressed and I must point out that I had not been able to find documentary proof of this part of the RFO's but as far as my knowledge goes it progressed to
20 the point where a request for offers were initiated and there was also a cabinet review but unfortunately I do not have substantiating documentation to that regard.

ADV SELLO: As a point of clarity when a project has progressed to the stage of evaluation of an RFO what would be
25 the next step thereafter in terms of ARMSCOR policies?

30 SEPTEMBER 2013

PHASE 1

MR GRIESEL: Once we have received offers from bidders and those offers have been evaluated against the value systems from the evaluation we would then make a recommendation to attend a board regarding a preferred bidder.

5 As I have indicated previously we could either approach the Tender Board to approve the preferred bidder and allow us to enter into negotiations with these particular bidders if necessary, if not, if we had sufficient information to establish a contracting position, we could then approach the Tender Board
10 to actually authorise placement of a contract on that preferred bidder.

ADV SELLO: Thank you. You may continue.

MR GRIESEL: The AFT, this is the advanced fighter trainer and the whole issue of advanced fighter trainer and
15 what subsequently happened to that will be I think dealt in greater detail by the next presenters but there was a process started for an AFT, which is an advanced fighter trainer, the RFO was issued in 1995 for this aircraft, it was subsequently stopped after the RFO had already been developed, when the
20 SDPP started, so when the SDPP's were started the requirement still existed for this AFT, which is an advanced fighter trainer and this relates to the Air Force's two-tier system which I believe has been explained to the Commission, after the RFI phase of the SDPP's the Air Force changed the
25 approach to a three-tier system where the AFT requirement was

30 SEPTEMBER 2013

PHASE 1

then split into two being the LIFT, the Lead-in fighter trainer and the advanced light fighter aircraft, so that requirement was then split into two with the change from two-tier to three-tier system.

5 And as far as the submarines are concerned a Staff Target for replacement of the Daphne submarines was issued in August 1996 and we then started progressing through the process but that was also then suspended with the exception of the SDPP's. Going further on the initiation of the Special
10 Defence Package Programme seven programmes that constituted the SDPP's emanated from the Draft Defence Review and I need to stress that this was a Draft Defence Review, it was at the time when we started this process the Defence Review had not been finally approved yet although the
15 information was available.

 This identified in this Draft Defence Review, identified 14 required equipment types of which seven equipment types were deemed to require foreign participation, those were the seven that eventually found its way into the
20 Special Defence Package Programme. The remaining seven types of programmes or products were of such a nature that they could be developed or manufactured by local South African industry and this related more to missile systems and command control systems.

25 The programmes for equipment acquisition which

30 SEPTEMBER 2013

PHASE 1

had previously been initiated as individual requirements but which formed part of the seven types identified to require foreign participation was stopped as individual projects and were subsequently incorporated into the SDPP process. The
5 initiation of the SDPP acquisition process can be traced back to June 1997 where the international government-to-government defence equipment offers were dealt with by the DOD and ARMSCOR in accordance with DOD policy directive 4/147, this is the policy directive that I dealt with earlier on and that
10 basically paved the way for the SDPP's and this was approved by the Council of Defence on the 8th of August 1997.

A formal process was thereafter initiated whereby requests for information for the seven cardinal equipment types were issued by ARMSCOR to the embassies of nine countries
15 on the 23rd of September 1997. The nine countries were, the nine countries which we deemed to potentially have equipment which could meet this requirement, although the RFI's were open, any country, any supplier could respond to the RFI's and it will become clear that some of those countries which were
20 not all suppliers which were not initially RFI's requested from actually did respond. Those RFI's were sent out under the signature of Mr Ron Hayward in his capacity as executive chairman of ARMSCOR on the 23rd of September 1997. All of the embassies of the nine countries received requests for
25 information for all the types of equipment and were required to

30 SEPTEMBER 2013

PHASE 1

distribute the RFI's to relevant companies in their respective countries.

ADV SELLO: Now before you off that slide, when and in what manner was the, was ARMSCOR authorised to initiate the RFI's?
5

MR GRIESEL: I do not have any documentary evidence instructing ARMSCOR to authorise the RFI's, we executed that on the instruction of our executive chairman who signed the RFI's.

ADV SELLO: Thank you, you may proceed.
10

MR GRIESEL: The RFI's were issued to nine countries being the United Kingdom, Germany, France, Canada, Spain, Sweden, Brazil and Denmark.

ADV SELLO: Just a quick one on that slide, slide 29, who made a choice of the nine countries, was it the DOD, was it ARMSCOR, was it jointly or was it anybody else?
15

MR GRIESEL: I do not know. I would assume it was a joint decision, I do not have any documents indicating who made that decision.

ADV SELLO: Thanks for that clarification, you may continue.
20

MR GRIESEL: The information that we sought from the respondents to the RFI's dealt with aspects such as the functional performance of the offered equipment, industrial participation which those companies or countries would offer as
25

30 SEPTEMBER 2013

PHASE 1

part of those requirements and they were also requested to indicate financing schemes to facilitate the business arrangements, in other words they already at that stage had to indicate whether they could make some financing arrangements to finance these acquisitions.

On the 31st of October 1997 we received 37 responses to these requests for information from the countries above that I mentioned except for Brazil and Denmark who declined to offer but unsolicited responses were received from Russia and the Czech Republic.

ADV SELLO: Chair, Mr Griesel is going to go into a slightly different topic, he is going to talk about the RFI evaluation and the outcomes thereof and I see we have about two minutes to lunch and he would require more than that, would it be an appropriate time to take a lunch break and he can start on this after lunch?

CHAIRPERSON: Thank you, we'll adjourn until 14h00. Thank you.

(Commission adjourns)

(Commission resumes)

CHAIRPERSON: Can the witness confirm that he is still under oath?

MR GRIESEL: I do.

ADV SELLO: Thank you Chair. My apologies Chair, somebody's mic appears to be on. Thank you. Thank you

30 SEPTEMBER 2013

PHASE 1

Chair. Before Mr Griesel goes onto the RFI evaluation may I
Chair request that he goes back to either slide 11 or slide 14
depending on which will work best and try to explain to us the
correct process in terms of ARMSCOR's acquisition policies.

5 We request this because the party is about to address, will
lead to questions of deviations if any, and it would be easier to
understand the point of deviation if we have a complete grasp
of what appears at page 11, we would like to believe that the
Commission will only but benefit from a rerun of this particular
10 slide before we go any further and that being the case Mr
Griesel can you work us through this and as slowly and as
detailed as you possibly can to improve our understanding.
Thank you.

MR GRIESEL: Thank you Commissioner. I would like to
15 in order to explain this better start with the systems hierarchy
which I unfortunately do not have a slide on but the systems
hierarchy I believe was explained by Captain Jordaan in his
previous testimony. The systems hierarchy would put the two
levels which we are addressing here into perspective. The
20 systems hierarchy is a, there are seven levels in the systems
hierarchy and it builds up from level zero which are matériel,
basic matériels to the second ...

ADV SELLO: I do apologise for interrupting you. May I
refer you Mr Griesel to Griesel-2 page 207 ... 42, I do
25 apologise, page 42, 4-2. The other number 207 is an old

30 SEPTEMBER 2013

PHASE 1

number, so we'll be guided by 42. That is part of a document starting at page 32 of that file. Please confirm what the document is.

MR GRIESEL: This document is VB-1000, it is the policy on acquisition and in the process of acquisition for matériel, Category 1 Matériel which is applicable to both the DOD and ARMSCOR and this is the policy which dictates the process which needs to be followed in the acquisition of Category 1 Matériel and it describes the process which is on the slide. On page 42 it indicates the systems hierarchy starting at level 1, "Matériels and Processes", this would be basic matériels which would then be combined to form components which represents level 2 of the systems hierarchy, those components would be put together to form a product, a product subsystem, in other words a subsystem of a product like an engine of a car or something like this and at level 3.

At level 4 those subsystems would then be combined to form a product and at level 5 a number of these products would be combined to form a product system. For example a helicopter which lives onboard a frigate, that total helicopter-frigate combination would be a product subsystem because that would be something which the user intends to use as a system but the frigate in its own right and the helicopter in its own right are products.

When that product subsystem or when it's added to

30 SEPTEMBER 2013

PHASE 1

it facilities and personnel you then get a user system which is represented at level 6 of this systems hierarchy. A number of these user systems would form a combat grouping at level 7 and a number of these combat groupings then would form an operational force which would be a combined force of Army, Air Force and Navy.

In terms of the Acquisition Policy the ARMSCOR and the DOD or SADF at that time has certain responsibilities, ARMSCOR would always operate at level 5, what I mean by that is the requirement which ARMSCOR receives is to go through the process and provide the user with a level 5 system, in other words a product system. What the DOD would do is they would have, they would add to that product subsystem training, facilities and personnel which would then constitute a level 6 user system, so ARMSCOR would always contract at level 5 and in this process on the board that is represented by the lower part of those plaques where the ARMSCOR baselines are indicated, that would be the process that ARMSCOR would go through to at the end of the day provide a level 5 product system.

At level 6 in the user requirement that would go through a process whereby in their (indistinct) documents they address things which are not normally addressed in technical baselines by ARMSCOR but which is intended to at the end of this process provide a user system, a user enabled system, in

30 SEPTEMBER 2013

PHASE 1

other words they would then also provide personnel for training and for the required facilities within which these systems have to live. If that is clear enough I would with your permission then go through the process itself which is described in VB-
5 1000 and I assume that Captain Jordaan also touched on this.

If we look at the level 6 milestone documents which is in the DOD domain and I must emphasise that those milestone documents are approved within DOD structures, not ARMSCOR structures. The first milestone document is a
10 required operational capability document and that document emanates from a process within the respective arms of service where from the missions and the objectives of the Department of Defence and then the respective arms of service they would require what do they need in terms of capabilities to execute
15 those stated missions of the department.

Doing an analysis of the required capabilities and comparing that with what they have any Delta [sic] or differences between the existing capabilities and those that are required in order to meet the stated objectives, they would then
20 generate required operational capability documents and those documents spell out in user's terms what the capabilities are that they require.

As I, the example that I mentioned earlier is they could indicate that they need a capability to deliver a certain
25 amount of explosives over a certain distance without specifying

30 SEPTEMBER 2013

PHASE 1

in any way what that product system should look like. From that is generated a Staff Target where they are already starting to indicate what the available funding is, what the extent of this requirement is in terms of quantities and so forth and that is the first mandatory document and it's also at that point where the process then goes from the user environment from the respective arm of service into the now DOD environment. Sorry, I'm there, the Staff Target.

It is at this point, and this Staff Target is still a SANDF document and from there on it goes into the DOD environment and these documents are approved at DOD forums. The, from the Staff Requirement is the project study or in the concept phase the Staff Requirement is developed and this is developed as part of the concept phase. In the concept phase as I indicated earlier various concept solutions or conceptual solutions to satisfy that required operational capability are identified, are analysed and the most appropriate solution to that requirement is then determined during that phase.

At the end of this phase in the Staff Requirement and in the ARMSCOR environment we also go through a number of baselines and I will spend some time on that later. The Staff Requirement would contain the user requirement statements, user requirement statements are documents in the functional environment as well as in the logistical environment that would indicate the user requirement in more detailed terms

30 SEPTEMBER 2013

PHASE 1

because now at that point an option selection has already been made of which of these different concepts would best meet the required operational capability.

5 The project study is then done to determine how that required operational capability or how that user requirement could be best met and at the end of the project study phase a project study report, a PSR is generated and at this point the requirement is defined to sufficiently great detail to allow a selection to be made or a determination to be made
10 as to whether something exists or does not exist that can meet that requirement, so sufficiently detailed specifications have already been drawn up at the level 5 level which I will get to later.

To know what kind of products, product system do
15 we require and we now have to make a determination as to whether that product system exists, whether it can be bought or whether we have to go into a development process to develop that specific system. The project study report has a very important output amongst others in that it recommends a make-
20 or-buy decision.

The make-or-buy decision is informed by seeking information from industry worldwide to determine whether that system exists and in order to do that ARMSCOR would solicit information from industry by means of a request for information
25 process whereby we develop a value system, we develop high

30 SEPTEMBER 2013

PHASE 1

level specifications and in the Request for Information we would include those specifications as a requirement and request industry to provide information as to whether they have product systems which can meet those specifications that are
5 contained in the RFI document.

So this RFI process is an ARMSCOR process, it is solicited by means of ARMSCOR's Procurement Secretariat, it is evaluated in terms of the value systems which are drawn up by integrated project teams which are led by ARMSCOR and the
10 outcome of that Request for Information is included in the project study report to indicate whether such a product system does exist and whether those that do exist would sufficiently meet the requirement in order for us to continue and acquire those product systems for the defence (indistinct).

15 If the indication is that it does not exist this would inform a make-decision in the project study report or a make-recommendation that we have to follow the development process to develop that required (indistinct) system.

Once the definition phase has been completed the
20 definition phase now assumes that the selected concept has been identified, we now have to define what that selected concept has to look like in terms of specifications, we now know that the best way of delivering this amount of explosives over a certain distance would be a missile system, so we now
25 have to define what that missile system has to look like in

30 SEPTEMBER 2013

PHASE 1

terms of specifications.

At the end of the definition phase that system has to be defined in sufficiently great detail to allow you to contract industry to develop a system according to those specifications. In the systems engineering environment those would be referred to as B-Specifications, so that would be detailed specifications indicating how many wheels the system has to have, what the size of the wheels are and what kind of engine it has to have and that kind of thing.

Then a development plan in the DOD as a milestone is developed and this development plan would then indicate what the development would entail and what the cost would be, what the timescale would be, what would be required in the DOD environment in terms of logistics and so forth for this required option, and you must just bear in mind that this entire process is designed as a risk reduction process starting from a very vague requirement narrowing it down to a product which is very well defined and attempting to spend as little as possible money or to commit as little as possible money where the risk is very high and by the time that you started committing yourself to a large amount of money in terms of developing or producing it you have reduced as much as possible of the risk in terms of that requirement that you have to find not meeting your, or that system that you defined not meeting the requirement.

30 SEPTEMBER 2013

PHASE 1

The development plan would then address all those issue which would allow the user environment to authorise the continuation of development where they have to reconfirm that the requirement or that this recommended requirement is going to meet their operational capability requirements, that sufficient money is on budget, that the time that would be required or the estimated time required would be acceptable and then we would embark on the development phase where we would typically contract industry to then continue with the development of that system.

This lower part here actually just indicates typically what models could be developed during this development phase where you would start with an (indistinct) just to prove the concept but which does not necessarily meet all the specified requirements, does not meet the environment requirements but can prove a concept. We then go through to an advanced development model and AEM which starts to meet the functional requirements but not necessarily the environmental requirements, in other words they have now built a model that can functionally do but it cannot necessarily stand the extreme temperature conditions or bump, vibration or things like that.

Then from there on develop an engineering development model which now resembles the final product in terms of functionality but also in terms of the meeting the environment requirements of (indistinct) operation and

30 SEPTEMBER 2013

PHASE 1

temperature and so forth, but it is still hand-built in the laboratory environment. From there you would go into the industrialisation phase where you would manufacture a number of preproduction models and those preproduction models are
5 now not manufactured or built in the laboratory environment anymore but it's built in the factory environment and a number of these preproduction models are manufactured which would then be used for qualification tests where they would be submitted to temperature extremes, to bump and vibration, to
10 tests to confirm the reliability of the systems and so forth and once the industrialisation has been completed would then go into production where production models would be manufactured.

But going back to the level 6 once the development
15 has been completed we would now be in a position to commit to going into industrialisation with the intent of eventually producing this and before the commencement of industrialisation and production the acquisition plan has to be approved in the DOD environment and this is the second
20 mandatory document.

By approving the acquisition plan the DOD would then permit itself to continuing with this process of industrialisation and subsequently manufacturing this product system, the acquisition plan would then need to indicate in
25 greater detail what the exact cost is going to be for the

30 SEPTEMBER 2013

PHASE 1

acquisition of this system, what the timescales are going to be, how the funding is going to be phased, how the logistics, what the implications of personnel and facilities and so forth would be, so that all informs the level 6 decision but in order for the acquisition plan to indicate what the exact cost is going to be for this contract which would now be placed on industry for industrialising and manufacturing or if we were in the make decision there would not be development but we would continue with the acquisition plan to commit ourselves to actually acquiring those systems.

So, the acquisition plan has to indicate in the DOD environment exactly what the cost is going to be of this system, what the impact is going to be on budget, how the funding requirement phasing would look like, so in order to provide that information in the acquisition plan ARMSCOR would then solicit requests for offer from industry,.

It is important to note that the Request for Information, the responses which I received from industry is to provide information to make decisions on, but are not final and binding offers, so the RFI information cannot be used to contract, RFO information is sufficiently detailed and there are also requests to industry to bind themselves to an offer on which they can be contracted and for which they would not then deviate, so they would have to commit themselves to cost, to timescales and so forth and based on the RFO we should be

30 SEPTEMBER 2013

PHASE 1

able to place a contract on industry for the timescales which they have indicated for or cost that they have indicated in the RFO.

5 So, the intention of the RFO, Request for Offer from industry is twofold, firstly that RFO information is included in the acquisition plan because that is what the DOD would use to determine what the budget ceiling would be that they would require, what the phasing of the cost would be. Once that is approved by the relevant approval body the DOD would then be
10 in a position to issue a financial authority to ARMSCOR which would allow us to contract.

That RFO information is also then used after an evaluation has been done and the preferred bidder has been determined, it's also then used to develop a submission to a
15 relevant tender board within ARMSCOR to request the tender board to approve a contract on that industry or that company based on the information that they have provided in the RFO, so the RFO information provided by industry is a final and a binding offer.

20 Once the acquisition plan has been approved, the funding has been approved the DOD can provide ARMSCOR with a financial authority and with the financial authority we can then approach the tender board seeking authorisation of the contract in industry, once that contract has been authorised
25 the contract would be placed on industry and we continue with

30 SEPTEMBER 2013

PHASE 1

the process of acquiring the system, either buying an existing system or going through the industrialisation and production phases to produce the required quantities.

Once those quantities are in delivery the first three
5 years typically as determined by the budget, ag, by the policy has passed and the logistics of that has been provided has been sufficiently evaluated, the equipment has been sufficiently evaluated and we can then close the project, so an operating baseline would then have been established which
10 means that this system now contains all the requirements, fully meets the requirements, is a supportable and a maintainable system and it is then handed over into the user environment.

Concurrently with this process of milestone documents in the DOD environment which is at the level 6 of
15 the systems hierarchy ARMSCOR has a number of technical baselines which we have to go through in this very same risk reduction process.

ADV SELLO: Thank you Mr Griesel. I'm assuming that you are about to address the question of baselines in the
20 ARMSCOR environment. Can I ask you to refer to document appearing at page 91 of Griesel-2 titled "ARMSCOR Policy Acquisition Document KB-1000". Having located the document I would like to refer you to page 93 thereof and in particular paragraphs 4.2 and 4.3 and ask you to read those into the
25 record and give any explanations that might be helpful in

30 SEPTEMBER 2013

PHASE 1

regard thereto.

MR GRIESEL: Sir, paragraph 4.2 of KB-1000 which is the ARMSCOR Acquisition Policy paragraph 4.2 addresses the concept of baselines and the paragraph reads:

5 *“A set of documents consolidating and documenting
the results of a preceding phase approved and
confirmed by the authorised management and/or
technical review board and serving as input,
demarcation and point of departure for the following
10 phase”.*

Paragraph 4.3 then addresses the Baseline Review Board “BRB”, and defines it as:

15 *“A group of persons in ARMSCOR convened to
assess whether adequate proof has been submitted
that the current level of progress on a project is
such that the next phase may proceed. The
meaningfulness and appropriateness of the planning
for the next phase is also assessed and the
acceptability of the identified risks is confirmed”.*

20 ADV SELLO: Thank you. And I’m going to ask you to
turn to page 97 and read paragraph 6.4.4 and having done that
then to just sum it up and give in your own words what a
baseline review board is, what its functions are and what
generally a baseline is.

25 MR GRIESEL: Paragraph 6.4.4 addresses “The Master

30 SEPTEMBER 2013

PHASE 1

and Decision Making Authorities” and it reads:

5 *“The baseline review boards represent the decision making authorities. There are three such boards, namely Management Board Baseline Review Board for cardinal programmes, Departmental Management Board ‘BRB, baseline review boards for critical programmes and (c); Divisional Management Baseline Review Boards for routine programmes”.*

10 This was the situation at the time, subsequent to that the two levels of baseline review boards have been reduced from three to two, but at this time there were three levels of programmes in terms, classified in terms of the size and extent of the programme and also of the risk involved and that classification would be aligned with the DOD’s classification of programmes has been cardinal or non-cardinal.

15 ARMSCOR at that point in time introduced an intermediary level of programmes which are not routine buying-off-the-shelf type of programmes but which involved some risk but not to the extent that a cardinal programme would in terms of risk. What these paragraphs mean that I just read is that they established the concept of, this policy establishes the concept of baseline management and this is ARMSCOR’s approach to the systems engineering process, is to proceed through this process, this phased process of risk reduction by means of a number of well-defined phases.

30 SEPTEMBER 2013

PHASE 1

At the end of each of these phases that phase would be concluded by the establishment of a baseline, we have a document RSA (indistinct) Standard 3 which defines exactly what each of these baselines, and unfortunately that document is not referenced, which ...

ADV SELLO: Apologies for interrupting you, we accept that the document you refer to is not referenced but please have regard to page 99 of KB-1000, and I think it's the next two, three pages, and see if that may be of assistance in taking us through the slide

MR GRIESEL: Yes, those pages define what each of these baselines entails, not to the extent that I was (indistinct) is a document that has got much more detail and is used as the basis for which the baseline audits are performed, for each of these baselines a baseline audit has to be performed by an independent audit party outside of the acquisition department to verify whether all the requirements for the baseline has been established.

If I can very briefly go through these baselines starting with the requirements baseline, the requirements baseline as I indicated earlier on is the point where ARMSCOR becomes involved in the acquisition process, that is where the required operation capability is established and a memorandum of understanding is generated between the DOD and ARMSCOR which is the formal starting point for ARMSCOR to embark on

30 SEPTEMBER 2013

PHASE 1

the acquisition process. That memorandum of understanding would then indicate who would be the project officers, who would be the project managers and it's an agreement between ARMSCOR and the DOD where ARMSCOR undertakes to go
5 through this process with the user requirement as we have received it.

The requirements baseline is the first baseline that is established in the ARMSCOR environment and the intention of that baseline is to confirm the completeness of the
10 requirement that we have received, in other words is that requirement sufficiently complete for us to embark on this process or do we have to refer back to the user for further clarification or not.

The requirements baseline would then introduce
15 ARMSCOR involvement in the concept phase where different concepts are then generated, evaluated and the most appropriate solution for that required capability is then identified. At the end of this phase the functional baseline would be established and the functional baseline would indicate
20 what are the functions of this system which is now going to be further developed, a high level specification would be generated for that system, not indicating down to bolts and nuts but indicating high level functionality that would be required of this system which has been decided upon.

25 Then we would, once that functional baseline has

30 SEPTEMBER 2013

PHASE 1

been established and the Baseline Review Board is satisfied that all the activities that should have been completed in the previous phase have been sufficiently addressed and that we had sufficiently reduced risk to allow us to continue into the next phase. The next phase would then be the definition phase where that selected concept is then further defined to arrive at a set of specifications which are detailed enough to allow us to either go and procure that system and to evaluate the performance of that system against those specifications or to contract industry to develop a system, so those specifications must be robust enough so that at the end of the day when the development is complete we can evaluate technically that development against those specifications which we have contracted industry against.

So, the allocated baseline which allocates certain functions to subsystems which allocates detailed specifications is then established and again it has to be approved by an appropriate baseline review board depending on whether it's a routine or critical or cardinal programme and that baseline review board has to be presented with formal documentation regarding the baseline which is now being established, indicating what the programme strategy is, what risk abatement has been performed, whether the specifications are sufficiently detailed and there's a list of items that needs to be addressed, that Baseline Review Board submission would also then be

30 SEPTEMBER 2013

PHASE 1

accompanied by an audit report by ARMSCOR's Quality Assurance Division within independent auditors to verify that all the baseline requirements have been met as prescribed in our documentation.

5 Once the allocated baseline is approved we can then embark on the design/development phase where we would then contract industry to go through this process of developing that system which we have specified. At the end of the development phase we should then be in a position to have a
10 system which functionally fit, form and function meets the requirements which have been stated by the DOD.

 At the end of that phase we then establish the manufacturing baseline which says that we have now developed a system which meets the functional requirements, which meets
15 the environment requirements and which should be a useable system and that all risk in terms of functionality has been sufficiently addressed. That approval of that manufacturing baseline by the Baseline Review Board would then allow us to contract industry for the industrialisation phase where this
20 system now moves from the laboratory environment into the production environment and it becomes a producible system, so the intention of the industrialisation phase is twofold, it is to make alterations to the system which would make it more producible in terms of the quantities which are required and
25 also to manufacture a number of these systems which can be

30 SEPTEMBER 2013

PHASE 1

used for testing, for reliability testing, for environment testing and operational testing. Once the, and during this phase also test equipment and manufacturing processes are qualified. At the end of that process we establish the interim operating
5 baseline, there we have to prove that the manufacturing processes have been qualified, that risk has been further reduced, that this system is now a producible system and once that baseline review board approves the (indistinct) we can then continue to the actual manufacturing phase.

10 These baseline review boards as indicated in the policy are ARMSCOR review boards, chaired by ARMSCOR personnel and they address technical issues, risk issues as we progress through this risk reduction process, so it does not necessarily address all the issues which would be considered
15 at level 6 by the DOD because the level 6 of DOD wants to consider can I use this system, do I have sufficient money for this, what would my, the implications be on training, on personnel, on facilities that I require and so forth, which are not necessarily addressed at this level, this level here at level
20 5 at the ARMSCOR environment are normal technical (indistinct). I don't know Sir if I've sufficiently explained that.

ADV SELLO: I believe you have, thank you Mr Griesel. Just one point I think before we leave this slide and I know that you will be addressing the issues of the SDPP in more detail in
25 time to come, are you able, however, to state whether or not as

30 SEPTEMBER 2013

PHASE 1

regards the SDPP's we have the baselines approved and authorised by the Review Board as described in that slide?

MR GRIESEL: Chair, the SDPP's follow a different route, the process described in VB-1000 and also in ARMSCOR's KB-
5 1000 assumes that you start with a required operation capability, you go through the process, you either decide that something exists, I mean to buy it or it doesn't exist, I'm going to manufacture it. The SDPP's were in all the cases a hybrid because we started off with the system which exists but which
10 had to be modified to meet our peculiar requirements, so we did not go through this process and I can confirm that at the time when we contracted for the SDPP's these baseline approvals did not exist.

In many of the cases as we progressed through the
15 development activities that had to happen post contracting where the development had to be done on the systems which were required to make those systems meet our peculiar requirements there were baselines established but they were in some cases done retrospectively because the system had
20 already been acquired and we now went through a process developing the outstanding part which had to be developed to meet our requirements, so there were some of the cases, I cannot confirm whether it was done in all the cases but in many of them. For example in the Project Ukhozi for the ALFA
25 aircraft I know that those baselines were established but for

30 SEPTEMBER 2013

PHASE 1

the part which had to be developed post contracting.

ADV SELLO: Are you suggesting that the detail of that will be provided by the respected teams of the projects.

MR GRIESEL: I would assume so, I would be in a position
5 to per project, because it differed per project what existed and what did not exist.

ADV SELLO: Thank you, I will definitely be taking it up with the respective teams. And again before you proceed to the RFI evaluation as you intended to may I ask you to refer to
10 slide 21 and to do so with reference to a document appearing in Griesel-1 at page 46. If you could just state for the record what that document is?

MR GRIESEL: The document appearing on page 46 is the DOD policy directive (indistinct) Policy for Dealing with
15 International Defence Equipment Offers in the Ministry of Defence and it is referenced DOD Policy Directive number 4/147.

ADV SELLO: Thank you. Very briefly can you take the Commission through the salient features of that policy?

MR GRIESEL: Commissioner the policy directive 4/147
20 initiates the international government-to-government acquisition (indistinct). Importantly it introduces a three-tiered evaluation of these international or government-to-government defence procurement programmes which is different from the
25 typical evaluation which would be done in terms of the standard

30 SEPTEMBER 2013

PHASE 1

ARMSCOR processes, so it already starts by introducing the concept of multiple programmes being handled as a package, it introduces the concept of a three level or three-tiered evaluation process with three different value systems where the first order value system would be a high level value system where strategic considerations are taken for strategic and national, or national strategic issues are taken into consideration.

It then introduces a second level value system and a second level evaluation which would assume that there are a number of different aspects with a number of different programmes which have to be evaluated and that level would then address the means or the formula by means of which the different aspects relating to those programmes are consolidated to arrive at a preferred bidder situation or a preferred system situation, and then it addresses a third level or a third order value system which would be a value system which would evaluate the technical or functionality of products, would evaluate the extent of industrial participation that is offered and also the (indistinct) although it does not detail that it must be technical, financial and industrial participation but it indicates that it's a lower level where the technical details are addressed. So the relevance of this ministerial directive is that it effectively endorses the deviation from the standard ARMSCOR process of ARMSCOR being solely responsible for

30 SEPTEMBER 2013

PHASE 1

evaluating and arriving at a preferred bidder situation by virtue of the fact that it introduces these three levels of evaluation that has to be done.

5 ADV SELLO: In the time you were involved with the SDPP's you worked with this policy fairly extensively, would it be fair to say?

10 MR GRIESEL: I was predominantly involved at the level 2 activities which is the second order evaluation that was done and the events that led up to that second order evaluation, not necessarily with the details of the third order evaluations. The first order evaluation, the Ministerial Directive provides for a first order evaluation, I have no proof that that first order evaluation was ever conducted or whether such a value system ever existed.

15 ADV SELLO: In your understanding of this particular policy, where, anywhere does it absolve the SDPP's from compliance with any of the policies that you have described to the Commission?

20 MR GRIESEL: Commissioner as indicated my understanding is that it mandates the deviation from our policy regulating the development and approval of value systems to such an extent that it now introduces higher order evaluations which our policies and practices does not normally provide for. The ARMSCOR policy and practices are very clear on the fact
25 that the development of value systems, approval of value

30 SEPTEMBER 2013

PHASE 1

systems, the evaluation of offers and the approval of that is within the ARMSCOR domain solely, it is sole ARMSCOR responsibility. This policy introduces two higher order evaluation or value systems with evaluation which has to be done there which is outside of the ARMSCOR domain, it however, I cannot find any proof that it mandates the deviation from the ARMSCOR policies related to authorisation of (indistinct) authorisation.

ADV SELLO: Thank you Mr Griesel. With that background and that clarification for which we thank you I think now we may proceed to the RFI evaluation which is the slide you were going to go on next before we broke for lunch.

JUDGE MUSI: I'm sorry but I don't quite understand this. Are we saying that this particular direct authorising as it does, the deviation from standard ARMSCOR procurement processes, does he mean that you can, it will be justified if you do not follow the established ARMSCOR processes, you do not follow those and rather follow this directive and conduct your procurement in accordance with this directive other than the ARMSCOR standard policies?

ADV SELLO: Mr Griesel, is the question clear to you?

MR GRIESEL: I think so. If I understand the question correctly I must again reiterate that this directive was specific only to the international government-to-government acquisition package, it did not address the normal procurement or

30 SEPTEMBER 2013

PHASE 1

acquisition that ARMSCOR does, so it did not modify ARMSCOR processes and practices *in toto*, it did, however, introduce higher levels of evaluation which the ARMSCOR practices and policy does not address, it does not address as far as my
5 knowledge goes the delegations of, and the responsibilities of the ARMSCOR board in terms of being a tender board, that it does not change.

JUDGE MUSI: And if I follow correctly the SDPP was a government-to-government process.

10 MR GRIESEL: Yes Sir, for all intents and purposes this Ministerial Directive gave was the initiation of the SDPP's and only applied to the SDPP's.

JUDGE MUSI: Does it mean that as long as you are dealing with the SDPP's this is what you could follow, you don't have to
15 follow the ARMSCOR processes?

MR GRIESEL: No, we have to follow the ARMSCOR processes except those which are amended by this and only those which is relevant to the development and approval of value systems against which evaluation of offers came to be
20 done. It does not modify or amend the delegations, the responsibilities of the ARMSCOR board in any way, but it does introduce because of the nature of the SDPP's whether there were other factors which had to be considered which would not normally be considered within the ARMSCOR process, it
25 introduced an evaluation of those factors and if I may mention

30 SEPTEMBER 2013

PHASE 1

what it is, in the normal ARMSCOR process the assumption is made all the time that when we embark on an acquisition programme, that the budget for that acquisition programme exists on the Special Defence Account, but the money is there and as we go through these phases or milestones it is always reconfirmed what is the financial requirements, whether sufficient funds exist or not.

The case of the SDPP's there was already a major deviation from that process in the sense that we embarked on these programmes without funding in the Special Defence Account, so there had, there was an additional element introduced into the value systems that, an element of financing considerations which had to be offered by the respective offerers, our process does not provide for evaluating that, our process does not provide for people outside of ARMSCOR to evaluate certain elements of the offers, in this case it had to be done because ARMSCOR could not evaluate the financing part, it had to be done by Department of Finance.

And secondly because of it being the nature of this programme where a number of individual projects were lumped together in one package concept there had to be a way in which a higher level evaluation could be performed which would not normally be performed in terms of the ARMSCOR practices and processes where we would only address individual projects, hence the introduction of higher level evaluation, also the

30 SEPTEMBER 2013

PHASE 1

introduction of strategic considerations as the first order evaluation does not form part of our standard practices or processes, we would assume that by the time a required operational capability arrives or is generated and we go through the process that those strategic considerations have already been addressed, who do we want to buy from, what are, what is our relationship with the supplier countries and so on does not form part of our standard evaluation process.

ADV SELLO: Mr Griesel can I ask you to quickly go to slide 14 which is more or less the same as the one you just took us through concerning the processes, yes I think 14 was first. Now with reference to that particular slide can you explain how policy, no Directive 4/147 impacts on that process as is prescribed by either the DOD policies or ARMSCOR policies as you understand them.

MR GRIESEL: It doesn't. It doesn't.

ADV SELLO: And when you say it doesn't would it then be fair to assume that notwithstanding Directive 4/147 these processes that you say are prescribed must still have been complied with in regard to the SDPP's?

MR GRIESEL: I confirm that because this is the systems engineering process, this Directive 4/147 does not address the systems engineering process in any manner, it addresses the evaluation of offers, how offers for specific types of equipment would be performed or evaluated, it does not address the

30 SEPTEMBER 2013

PHASE 1

systems engineering process in any manner.

ADV SELLO: So would it be fair to assume that if there has been non-compliance with the ARMSCOR processes as you have described them and reflected in slide 14 the justification of such non-compliance is not to be found in Directive 4/147?

5

MR GRIESEL: Commissioner if you are referring to whether 147 absolves us from going through the baselines as described here, no, it doesn't.

ADV SELLO: Thank you Mr Griesel. If then we can proceed to, I lost count of the slide but the RFI evaluation I think it was, which was the next slide we intended to deal with just before when we came back from lunch, 32 please do.

10

MR GRIESEL: In previous slides I've indicated that we submitted requests for information to various countries, to nine countries, seven of those nine countries responded, two additional countries responded with unsolicited offers, we received 37 offers for equipment (indistinct) back from suppliers and then we had to perform the evaluation. The RFI called for responses in different categories to indicate the functional performance of the equipment types which are being, for which the information is being submitted to indicate whether if such equipment were to be procured from them they would be, they could offer any financing options and they also had to indicate that if such equipment is to be procured from the, or what their commitment would be towards industrial

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30 SEPTEMBER 2013

PHASE 1

participation, in other words to defence and to national industrial participation.

Subsequent to the completion of the offer evaluation process the Council on Defence, and I must just
5 indicate that these requests for information were evaluated against value systems, albeit higher level value systems than what one would have in the Request for Offer, the value systems did indicate or did allow for an evaluation of functionality, of performance, it also allowed for evaluation of
10 the industrial participation offers which would be submitted and similarly for the financing of this.

So the evaluation was done according to those value systems or against the value systems and subsequently the completion of the offer evaluation process or the
15 information evaluation process the council on defence which is the DOD structure approved a shortlist of 23 products offered by eight countries in these seven categories of equipment. Actually at that time it was six categories because it was still the AFT and not the LIFT and the ALFA, and approved that we
20 could then proceed to enter into a subsequent round of best and final offer bidding.

The reason why this shortlist was approved by the Council on Defence which is a military structure is that it had to approve the shortlist of equipment types which would meet
25 the user requirements, in other words all those equipment

types which made the shortlist which exceeded the threshold of functionality which I will address later on. To the user it would actually not matter which one of those equipment types they got because all of those equipment types on the shortlist would
5 meet their requirements, it would then be a case of which of those would give us best value for money.

So the shortlisted products were arrived at after evaluation of the Request for Information responses against the Request for Information value system. Minimum functionality
10 levels were determined by the respective user requirements and this is what I alluded to just now where they set a threshold of functionality above which, or equipment which met that minimum functionality threshold would be usable to them and would meet their requirements, so they would not have any
15 preference for a specific product of any of those on the shortlist.

The minimum functionality levels were determined on the basis of minimum functionality that would meet the user's requirement to such an extent that the products would
20 be acceptable for use in the intended roles. The shortlisted products were identified on the basis of them meeting the minimum functionality requirements, so all of those which from the functional evaluation, the technical evaluation against the value system met a certain level of functionality or made it to
25 the next round of final and best and final offer, unfortunately

30 SEPTEMBER 2013

PHASE 1

on this screen it's a bit small and I've got a list of the different types of equipment for which requests for information were solicited and the companies and the equipment which made it to the shortlist and maybe Ma'am should I just run through
5 each one of them? Sorry.

ADV SELLO: Thank. Before you quickly run through them could you just explain as far as the products are concerned or the countries are concerned, are these listed in any particular order and if so, what is the order?

10 MR GRIESEL: Ma'am, they are not listed in any particular order, from here on I actually listed them in alphabetical order but this is random, there's no specific order. The first category of the Corvette's which are now known as frigates, but at the time we went out in them as Corvettes, four countries
15 responded or four countries' industries made it to the shortlist, the United Kingdom, Germany, France and Spain, the United Kingdom with the GECF-3000 Corvette, Germany with the GFC Meko 200 and A200 and they actually offered two alternatives the 200 and the A200 and they were separately evaluated,
20 those offers from a technical point of view. France offered the DCN Lafayette and Spain the Bazan 5908.

The second category is the category of submarines , there were five countries or five products which made it to the shortlist being the Upholder Class submarine from the United
25 Kingdom, the GSC209 1400 MOD from Germany, DCN Scorpène

30 SEPTEMBER 2013

PHASE 1

from France, the Fincanteiri S1600 from Italy and the Kockums T192 from Sweden.

In the advanced light fighter aircraft category there were three responses that made it to the shortlist being the
5 BEA SAAB JS29 Gripen from United Kingdom and Sweden, although it is a Swedish aircraft manufactured by SAAB their offer was submitted as a joint offer between BEA and SAAB. Then the AT-2000 from Germany, the Dassault Mirage 2000 from France.

10 In the Lead-in fighter trainer category there were four, the BAe Hawk 120 from the UK, Aero Vodochody L159 from the Czech Republic, the Aermacchi MB-339FD from Italy and also the Aermacchi AEM/Yak-130 which was offered by Italy but this is an Italian, Russian joint venture I think. In the
15 main battle tank category there were two responses that made it to the shortlist, the Vickers Challenger 2E from the UK and the Leclerc from France.

ADV SELLO: For the benefit of the audience and to the extent that they can see what's on the screen please remember
20 to scroll through the slides as we turn the pages, thanks.

MR GRIESEL: Sorry. In the second last category being this one of the maritime patrol helicopter there were two responses, the GKN Super Lynx from the United Kingdom, that is a (indistinct) Super Lynx, and the Eurocopter Cougar from
25 France and Germany from Aeros La Bataille. And in the light

30 SEPTEMBER 2013

PHASE 1

utility helicopter category there were three, the Agusta A109 offered by Italy, the Eurocopter EC635 again from Aeros La Bataille which is both France and Germany and the Textron Power 427 from Canada. So those were the (indistinct) which were shortlisted from the RFI process. Chair then if I may continue on to the final offer solidification, we requested industry or companies to provide best and final offers for the shortlisted products.

CHAIRPERSON: Just before we proceed just remind me, who drew these shortlists that we have been going through? Who drew this shortlist?

MR GRIESEL: The shortlist of products was confirmed by the Council on Defence which is the Council or the meeting which is chaired by the Minister of Defence and the shortlist products if I may just reiterate that again were arrived at based on setting a minimum functionality threshold and functionality threshold is set by the user environments, by the respective arms of service for whom the product types were intended, they had to indicate above what functionality level when measured against the value system, above which of that functionality level they can live with any of the products that exceeded that minimum functionality level and that had to be confirmed by the Council on Defence representing the user requirement. The shortlisted products were confirmed by them but they were just all those products which met the minimum functionality

30 SEPTEMBER 2013

PHASE 1

requirement.

CHAIRPERSON: Sorry, let me go back to my question. I understand that the Defence (indistinct) approved the shortlist but then who drew the initial shortlist, am I right to say that I
5 understand you to be saying that the various arms of services are the ones who drew this shortlist after realising that the shortlisted companies at least meets their basic requirements?

MR GRIESEL: If I understand the question correctly Sir yes, the respective arms of service determined the minimum
10 functionality with which they could live. Those minimum functionality levels determine the, were applied on the results of the function or evaluation and that was then presented to the Council on Defence for all seven these categories of equipment types and the Council on Defence then confirmed the shortlist
15 for the next round of offer.

ADV SELLO: Thank you. Thank you Chair. Chair, before ...

JUDGE MUSI: Is it correct to say that all the shortlisted products met the minimum requirements of the DOD?

20 MR GRIESEL: That is correct Sir.

JUDGE MUSI: And from my understanding from previous evidence the attitude of the Department was that as long as a product meets those requirements we don't care which one we select?

25 MR GRIESEL: That is correct. From the user perspective

30 SEPTEMBER 2013

PHASE 1

that was the intention of the shortlist, of the minimum functionality level which they determined, from a user perspective, arm of service perspective anything that meets that minimum threshold or functionality they can live with yes.

5 It then means that we would then have to go into a next round of determining which of those gives us in each of the categories the best value for money.

ADV SELLO: Again with reference to slide 11 if you could just go there very quickly and we can recap, you explained that, and it has been your testimony that in respect of the SDPP's ARMSCOR was authorised to issue an RFI, is that correct?

MR GRIESEL: That's correct.

ADV SELLO: And the invitations were sent to nine countries and responses received.

MR GRIESEL: That's correct, but it was also open for any other prospective offerers to submit offers as did Russia and Czech Republic.

ADV SELLO: Indeed. Now from the responses received is it correct that a shortlist was, of potential bidders was prepared, is that what we must understand?

MR GRIESEL: That's correct, based on the RFI information and the functional or technical evaluation against the value systems the shortlist was derived from that for all those products which met the minimum functionality levels.

30 SEPTEMBER 2013

PHASE 1

ADV SELLO: And I think the clarity that was sought from you was who drew that shortlist, was it ARMSCOR, was it any other entity?

5 MR GRIESEL: The shortlist came from, the evaluation that was done but it was approved by the Council on Defence outside of ARMSCOR.

ADV SELLO: And the result as you showed on the table appearing at your slide at pages 34 is that ARMSCOR's product, or is that a product as approved by the Council on
10 Defence.

MR GRIESEL: The slide which I showed with the (indistinct) successful or shortlisted countries and products was the outcome of the evaluation which was done by the project teams comprising ARMSCOR and DOD but it was
15 confirmed or approved by the Council yes.

ADV SELLO: Thank you. I trust that there's some light on that. Thank you, you may continue Mr Griesel.

MR GRIESEL: After the shortlisted products and the different categories were confirmed, during February 1998
20 requests for offer for the shortlisted products in the six equipment categories and this excluded the LIFT because the LIFT Lead-in fighter trainer programme lagged behind the others and the reason for this lag is that the process was started with the AFT, with the advanced fighter trainer and
25 later in the process the Air Force changed from a two-tier to a

30 SEPTEMBER 2013

PHASE 1

three-tier training system which necessitated a lot of rework on the value systems for the two aircraft which are now, which were introduced in place of the (indistinct) AFT aircraft which the process started off with, so the LIFT lagged behind by
5 approximately two, three months.

So, in February 1998 the Request for Offer to the shortlisted products in the six equipment categories excluding the LIFT were submitted to the respective countries' military attachés, the closing dates for the submissions of the best and
10 final offers ranged from 11 May to 15 May 1998 and the reason why there's a spread was just to allow us to properly administer the responses so that (indistinct) all of them arrive on one day, so stagnant closing dates were determined for the different categories of equipment.

15 The Request for Offer for the LIFT lagged behind the initial six types, the RFO was sent out on the 11th of May and this is approximately the time that the other offers came back and the responses were received back on the 15th of June which was the closing date for the offers indicating in the
20 Request for Offer.

ADV SELLO: Please remind us again what is LIFT, what does that acronym stand for?

MR GRIESEL: LIFT is the Lead-in fighter trainer, this is the aircraft that in the three-tier system would be between the
25 *ab initio* trainer being the Pilatus ASTRA that the Air Force at

30 SEPTEMBER 2013

PHASE 1

that time had acquired and the advanced light fighter aircraft which is the higher level fighter aircraft, so it was the intermediate aircraft between the two.

5 ADV SELLO: Thank you. Please proceed with your presentation.

10 MR GRIESEL: The RFO's for the, the request for offers for the shortlisted equipment types indicated that the final offers that we had to require from the four separate, should consist of four separate sections, each of those sections detailing with the following aspects, so there should be one section indicating the functional performance of the equipment that they are offering and the tender price for the quantities which were specified, bearing in mind that the request for offers that went out contained detailed URS's or statements of work indicating
15 what the specific detailed functional requirements are, so they had to indicate their compliance to those specific functional requirements that they (indistinct) against.

20 Then the second section had to indicate the economic advantage to South Africa and industry related to industrial participation programmes in the two categories of defence industrial participation and national industrial participation, so there had to be two different sections in their offers which indicated their offers with respect to industrial participation, in other words what industrial participation
25 business plans would they then offer, what would they do.

30 SEPTEMBER 2013

PHASE 1

And then there was a fourth section where they had to indicate financial benefits as available from financing arrangements, in other words they had to indicate in their offer for the equipment which they are offering what financing schemes would be available to finance those, in other words they had to indicate potential agreements with financial institutions or how financing could be made available for those, for that specific category of equipment.

Prior to the acceptance of the final offers detailed value systems against which the respective proposals would be evaluated were lodged with ARMSCOR Procurement Secretariat and this is in line with our practice in terms of that paragraph 5.2.3.1 of KP-021 ARMSCOR, Procurement Secretariat was responsible for issuing the RFO's to prospective offerers receiving the offers from the offerers, distributing such offers to the various integrated project teams, again this is in line and this was done in terms of our standard practice at that time and these value systems, if I can just refer back to the Ministerial Directive 147 constitute the third order value systems contemplated in that policy directive.

These value systems were developed per equipment type because the value systems are very specific to the type of equipment which is required because they contain the criteria against which that specific type of equipment would be evaluated. And then based on the requirements of the

30 SEPTEMBER 2013

PHASE 1

respective user requirement statements and were arrived at evaluating the functionality of the offered equipment, in other words those, the offers were then evaluated against the approved value systems to determine the level of functionality
5 that would eventually be used to determine value for money.

These third order value systems, there were some guidelines established by the departmental coordinating team, the SOFCOM, and I will in later slides spend or elaborate more on the SOFCOM, who they were and what the composition was
10 and what the responsibilities of the SOFCOM was, the SOFCOM established certain guidelines, the first guideline that they established was that the three elements of each offer being the military value, the industrial participation value and the financing would carry equal weight in the final evaluation or
15 final consolidation to arrive at a best value for money determination.

ADV SELLO: Before you proceed on that determination by SOFCOM on the three elements and the fact that they will carry equal weight, can you guide the Commission as to in terms of
20 what policy SOFCOM made that determination?

MR GRIESEL: In terms of what policy they made the determination? The only policy in terms of which they could make such a determination was the Ministerial Directive which indicated that a second level value system had to be delivered,
25 this being the second level value system. Yes, that is ...

30 SEPTEMBER 2013

PHASE 1

ADV SELLO: Thank you.

MR GRIESEL: That was the determination that the SOFCOM made is that the three elements of each offer will carry equal ... Sorry.

5 CHAIRPERSON: I'm sorry to interrupt you. Did I hear you saying that at a later stage you will deal with SOFCOM because from the last witness who testified I couldn't quite understand how this SOFCOM was established, where it comes from and what its powers were, am I right to say that you are saying that
10 you will deal with the establishment of SOFCOM at a later stage?

MR GRIESEL: Yes, I will.

CHAIRPERSON: Thank you.

MR GRIESEL: Yes. Yes, I will Sir. The SOFCOM also
15 determined a uniform method of calculation of programme cost and without running ahead, in my slides I will get to that later on, I will indicate what the functions of the SOFCOM was but the SOFCOM had a coordinating responsibility more than anything else. Because there were seven programmes which
20 were being executed concurrently the approach of the specifically the seven technical teams had to be properly aligned because there are seven independent teams doing the evaluation and the SOFCOM had to coordinate those activities to ensure that they all do it in a similar manner.

25 The SOFCOM also determined that the final

30 SEPTEMBER 2013

PHASE 1

consolidation of the results of the evaluation of the respective elements would be added, would be achieved by adding the three indices to obtain a best value option being the bidder obtaining the highest score and I will spend a lot of time on explaining how that best value option was arrived at.

The recommended option in each of the equipment categories would thus be the option achieving the highest best value score where best value would be the military value index added to the financing index, added to the industrial participation index, those three indices would be added together carrying equal weight to give a best value option and the offerer which achieved the highest score or best value would then be the preferred supplier.

Just to explain what those three indices mean, the military value index is determined from the results of the evaluation by dividing the technical evaluation outcome and you must remember that there was a technical value system with a number of, large number of criteria against which the offers were evaluated. Coming out of that technical evaluation was a certain score, how well did the respective offerers score against the technical evaluation, against all of those criteria.

So, there was a score, a functionality score which was called the military function but it's a functionality score, that functionality score was divided by cost, by the offered cost to arrive at a military value and this really is an indication of

30 SEPTEMBER 2013

PHASE 1

the value for money, in other words what does the functionality that they offer cost. Just to try and better explain the concept of value for money there is a value system against which the functionality can be evaluated, the offered systems then get a score for each one of those criteria depending on to what extent they meet the requirements of that specific functionality that, that specific criteria, in other words for example, this is a very simple example, if the requirement is that the vehicle must be able to have a top speed of at least a 100 kilometres per hour then the product which offers you a top speed of a 110 kilometres per hour is going to score more than the one which says my top speed is only a 100 kilometres per hour, so the one with the better functionality would get a better score on each one of those criteria.

15 If the requirement is that my aircraft must be able to have an endurance of four hours on the fuel that it can carry as a minimum requirement, the one offerer indicates that their aircraft can give you four hours only and the other one says mine can give you five hours, the product with the five hours endurance would score more on that specific criteria and there were hundreds of these and I think in the aircraft, in the ALFA environment almost a 1 000 of these criteria against which the offers were evaluated, so the evaluation against that where they, where each of the criteria was scored, determined on, or based on the extent to which those criteria were met, those

30 SEPTEMBER 2013

PHASE 1

were all summed and that gave you a military performance index.

If you divide that military performance index by cost you then get value for money, in other words if my minimum requirement is that the vehicle must be able to travel at a 100 kilometres per hour but I would like to have more but that is my minimum requirement, the one offerer offers me a vehicle that can do only a 100 kilometres per hour and it costs a R1 000, the next offerer says mine can do a 150 kilometres per hour but my cost is R1 010, the R1 010 option which gives me about 50% better functionality would be better value for money and this is how the value for money determination was made by dividing the results of the functional evaluation by the offered project cost, so all of those different criteria were added together for the evaluation and of course the offerers would score differently on each of those criteria, in some cases they would be better than the others and in some cases less, but the one with the highest total functionality divided by cost would give an indication of which is best value for money.

Then there was an evaluation done on the industrial participation responses, there was (indistinct) value system with a score and similarly on the financing options which they offered they were evaluated against the value system, a score was arrived for each of them and those three scores were then added together, actually four scores because the defence

30 SEPTEMBER 2013

PHASE 1

industrial participation consisted of two parts, it being the national industrial participation and the defence industrial participation and they were combined eventually into a single industrial participation figure or index and they were added together, so will proceed to indicate how those, if this is sufficiently clear, how those indices were added together.

Now before I get to the section where I will indicate how the preferred suppliers were arrived at the Strategic Offers Management Committee, the SOFCOM played a sizeable role in this process as a coordinating function, so I would like to spend some time on the SOFCOM and what the responsibilities were.

Just as some background the seven procurement programmes were running simultaneously and they were consolidated into one procurement package under the auspices of the SDPP's, so it was necessary to coordinate and consolidate the acquisition process and for such purpose the SOFCOM was created. The SOFCOM was a coordinating committee and it was appointed by the Armaments Acquisition Council, the Council which is chaired by the Minister on the 7th of April 1998.

It was established with the aim of supporting the Minister of Defence in the management and execution of the DOD involvement in the SDPP acquisition. The SOFCOM operated under a formal constitution which spelled out the

30 SEPTEMBER 2013

PHASE 1

functions of the Committee and it was constituted of senior representatives from ARMSCOR, the Acquisition Division of the DOD at that time called DAPD, Defence Acquisition and Procurement Division, the arms of service of the South National Defence Force, Department of Trade and Industry and Department of Finance.

ADV SELLO: My apologies again for interrupting but just to assist the Commission could you refer to page, the document appearing at page 53 of Griesel-1 and in the process of giving your testimony in respect of the SOFCOM possibly to make reference to the extent that it is necessary to that document.

MR GRIESEL: Yes. This document, the document that spells out the constitution of the SOFCOM and it was signed by the then-Chief of Acquisition (indistinct) Mr Chippy Shaik. And this spelled out the functions of the SOFCOM, who the chairpersons would be, meetings and what the composition of the SOFCOM would be and I will address the composition of the SOFCOM in later slides.

The SOFCOM operated under a formal constitution, the one that we referred to just now, I functioned under the dual chairmanship of the Chief of Acquisitions of the DOD Mr Chippy Shaik and the general manager of the Aero Maritime Department of ARMSCOR Mr Erich Esterhuyse, they were the two co-chairs, the SOFCOM membership, unfortunately this is a bit small, the members of the SOFCOM, must I read them out?

30 SEPTEMBER 2013

PHASE 1

The Chief of Acquisition of the DOD was a co-chairperson, the chairman-manager Aero Maritime Department of ARMSCOR was the other co-chairperson, the Chief of Finance of the DOD, general manager of Combat Systems Department of ARMSCOR, 5 the Director of Weapon Systems in the Acquisition Division of the DOD, Chief of Army representative, Chief of Air Force representative, Chief of Navy representative, Chief of Intelligence Representative, Department of Trade and Industry representative, Department of Finance representative and then 10 the two co-secretaries representative from the Acquisition Division as part of the SOFCOM Secretariat and a representative from ARMSCOR as part of the SOFCOM Secretariat.

In my next slide I will indicate the names of those 15 functionaries who comprised the SOFCOM, at the top the two co-chairs Mr Shamin Shaik, Chippy Shaik, Mr Erich Esterhuyse, representing the arms of service Brigadier General BO Du Preez, Major General CB Lombard, Rear Admiral Junior Grade AN Howell, they represented the Army, Air Force and Navy.

20 From the DOD side General ES Raubenheimer who was later on replaced by Mr Jake Grundling, Rear Admiral SJ Verster, Brigadier General J Jooste, Johan Jooste, Brigadier General P Vivije, Pieter Vivije and then Captain from the Navy Derrick Dewey who was the co-secretary. From ARMSCOR Mr 25 JS De Jager, Jaco De Jager, Mr GJ Hoffman, Mr KP Hanofee

30 SEPTEMBER 2013

PHASE 1

and Mr D Griesel, myself.

From Department of Finance Mr Andrew Donaldson and Mr Roland White, and from the Department of Trade and Industry Mr Allen Hirsch, Mr V Ponsamy and Mr R Pillay
5 eventually replaced Mr Ponsamy. Those were the actual members of the SOFCOM. The SOFCOM met approximately once every two weeks during the three months that it was in existence and ...

ADV SELLO: Referring back to the question the chair posed,
10 and with reference to point 1 on that slide you say during the three months it was in existence can you indicate from what period to what period the three months span?

MR GRIESEL: The SOFCOM was appointed by the Armaments Acquisition Council on the 7th of April 1998 and the
15 last function that the SOFCOM performed was on the 1st and 2nd of July 1998 when they were responsible for the consolidation of the results of the evaluation of the different sections of the offers. The SOFCOM was never, as far as my knowledge goes, never formally disbanded, it just never met
20 again after the 1st and 2nd of July.

ADV SELLO: Thank you. You may proceed.

CHAIRPERSON: Just hold on, let me go back to my question. You say SOFCOM was formed by the Armaments Acquisition Council, is that what you said?

25 MR GRIESEL: Yes Sir. The ...

30 SEPTEMBER 2013

PHASE 1

CHAIRPERSON: Just hold on. If the answer is yes, is there any documents here which indicates that this SOFCOM was formed by the Armaments Acquisition Council? I will tell you why I'm asking that question because the letter that you referred us to on page 53, I will still come back to it, it was signed by S Shaik and he has signed, from the letter it appears as if he signed as the Secretary for Defence, Director-General.

MR GRIESEL: That was the document on ... I don't have a minute of the AAC meeting, the letter from Mr Chippy Shaik, if I remember correctly actually indicates that this was approved by the AAC.

CHAIRPERSON: And you know, still on that point another contradiction, if you look at this letter this letter talks about International Offers Management Committee, SOFCOM, that really confused me that you know International Offers Management Committee is called SOFCOM. And then two; you will see when he address this letter he also seem to have addressed it to himself, I thought at that time he was the Chief of Acquisitions. You will see that when you go back to the next page it is also addressed to the Chief of Acquisitions and in this side he signs it apparently on the face of the document in his capacity as Secretary for Defence, Director-General.

MR GRIESEL: He was the Chief of Acquisition at the time.

CHAIRPERSON: Okay, if he was the Chief of Acquisitions

30 SEPTEMBER 2013

PHASE 1

that page, that letter page 53, in what capacity did he sign it if you look at his signature right at the bottom?

MR GRIESEL: I cannot answer that question Sir. He signed on the letter as Secretary for Defence but he was not
5 the Secretary for Defence, I cannot answer in what capacity he signed.

CHAIRPERSON: That is why I was saying that I'm not quite sure how this SOFCOM was formed because when you look at this letter it appears as if Mr Sheik signed in his capacity as
10 Secretary for Defence but then if you go to the next page it becomes clear that no, it appears as if he was not the Secretary for Defence at that time, he was the Chief of Acquisitions, so my question still stands how was the SOFCOM formed. Is there any documents which indicates how SOFCOM
15 was formed because the documents themselves are a bit confusing.

MR GRIESEL: As far as my knowledge goes Chair there was no other document that gave rise to the SOFCOM other than this one which spelled out the Constitution, the only other
20 document that can be interpreted as referring to a body like the SOFCOM would be the Ministerial Directive which indicated that the level 2 value system should be developed by an interdepartmental workgroup and the SOFCOM effectively was an interdepartmental workgroup and there was no other body
25 that actually gave execution to that second order value system

30 SEPTEMBER 2013

PHASE 1

as determined by the Ministerial Directive.

ADV SELLO: Chair I don't know if that answers your question and we may proceed or whether it's an issue that the witnesses will have to apply their minds to accept that this witness has taken it as far as he can?

CHAIRPERSON: I understand that the witness has taken it as far as he can but I'm still confused. My difficulties are not solved as yet because you know there's a list of people who are forming part of that Committee, but then we don't know in terms of what authority were they appointed and who in actual fact appointed them because once you know there was no basis for the appointment of this Committee you know that you know, that might end up with certain consequences as far as the decisions of those committees are concerned. Maybe the witness can have a look at this point and maybe tomorrow morning try and help us or I see Advocate Sibeko seems to be having some notes there.

ADV SELLO: Chair, may I pose one or two questions to the witness and see if he is able to assist us any further than he has already attempted to. Mr Griesel if you have regard to your page 46 of the slides ...

CHAIRPERSON: Page?

ADV SELLO: 46. 4-6. The last name appearing under ARMSCOR you indicated that's yourself Mr D Griesel.

MR GRIESEL: Yes.

30 SEPTEMBER 2013

PHASE 1

ADV SELLO: Slide 46. As part of ARMSCOR what role did you play in SOFCOM?

MR GRIESEL: I was appointed as the co-secretary for the SOFCOM together with Captain Derrick Dewey, the person
5 there, so formally that was my role, was to be the alternative, not alternative but the co-secretary and in practice what happened was that Captain Dewey kept all the minutes but I was responsible for many other activities relating to producing some information and consolidating information and so forth as
10 part of the SOFCOM activity.

ADV SELLO: Now who appointed you co-secretary of SOFCOM?

MR GRIESEL: When the SOFCOM was initiated Mr KP Hanofee, the person there, was actually the co-secretary, he
15 was, however, involved in an unfortunate accident which incapacitated him for quite some time and then general manager Aero Maritime Systems who was my direct boss appointed me and he was the co-chairman, appointed me as the co-secretary.

ADV SELLO: Are you, you mentioned earlier that the establishment of SOFCOM was confirmed by, or endorsed by the AAC, is that a fact you are stating or is it supposition on your part?

MR GRIESEL: I take you back to the AAC (indistinct) the
25 Ministerial Directive and in the second order evaluation

30 SEPTEMBER 2013

PHASE 1

indicated in the Ministerial Directive it alludes to the fact that an interdepartmental workgroup needs to develop the value system or the second order value system, that in my interpretation is a factor which the SOFCOM performed.

5 ADV SELLO: Besides that is there any document you are aware of that without doubt provides that SOFCOM is that second order evaluation workgroup contemplated in the directive?

10 MR GRIESEL: No, as far as my knowledge goes no other document exists except this document which was signed by Mr Chippy Shaik which also refers to the AAC meeting, the first paragraph.

15 ADV SELLO: I apologise, I missed the last point, you are referring us to this document which you say has reference to a meeting, AAC meeting, if I misheard you please correct me.

20 MR GRIESEL: It's not this document. There is a, as far as my knowledge goes, no other document, there is the Ministerial Directive which contemplates the interdepartmental workgroup which has to develop a second order value system and the only other document to our disposal is this one from Mr Chippy Shaik with the constitution of the SOFCOM which indicate that they have to perform that function amongst others which is contemplated in the Ministerial Directive.

25 ADV SELLO: Chair, we confirm that's as far as this

30 SEPTEMBER 2013

PHASE 1

particular witness can take the issue, we've taken note of the Commissioner's concern in this regard and we shall attempt to establish a definitive answer to these questions, whether it be through us or our fellow Evidence Leaders in dealing with the various other witnesses involved in some of these processes.

JUDGE MUSI: I'm not quite sure whether it's necessary, can't we accept on the basis of his evidence there was such a body, the documents (indistinct) establishment of such a body, we've heard evidence throughout that there is, SOFCOM existed, he's given us the membership of that body and that is the function it did, unless there is anything that contradicts that I think simply we must operate on the basis that such a body did exist and he says it was confirmed by the AAC, I think we should accept that such a document, such a body existed and that those were its functions and those were its members, there's nothing to contradict this.

CHAIRPERSON: I understand what Commissioner Musi is saying but then if we can get better evidence please let us have that. We can get better evidence because I mean on the question of whether it was confirmed by the Armaments Acquisition Council is speculating. Please make sure, and even the last witness was also speculating. If you can get us better, I mean evidence on, and/or documents I'm sure that will assist.

ADV SELLO: Indeed we will Chair, and AAC being a

30 SEPTEMBER 2013

PHASE 1

DOD forum it is for us I guess to go to DOD and see if
anywhere in their archives or records they have a confirmation
such as described by these witnesses in respect of SOFCOM
and once it's located a witness from DOD I think will present
5 himself or herself before the Commission and speak to that
document Chair.

CHAIRPERSON: Okay.

ADV SELLO: Thank you Chair. Maybe just to round off
this point and see if we understand I am still Mr Griesel on
10 page 53 which the chair had just, that document which the
chair has just discussed with you. If I'm correct pages 53 and
54 are more or less a covering page to the actual document, is
that so?

MR GRIESEL: That is correct.

15 ADV SELLO: And pages 55 and 56 is the actual
constitution and rules of SOFCOM?

MR GRIESEL: That's correct, it's a composition.

ADV SELLO: Indeed, the composition. Considering
what's listed at page 55 and in particular under the functions of
20 SOFCOM at paragraph 3 is that in your understanding
consistent with what you understood the second order
evaluation to be?

MR GRIESEL: Not limited to the second order evaluation,
the functions of the SOFCOM as described here also included a
25 coordinating function as is indicated in paragraphs (a), (b), (c),

30 SEPTEMBER 2013

PHASE 1

(d), all the paragraphs. They eventually did the evaluation consolidation but throughout the period of the three months that the SOFCOM existed they did a coordination function more than anything else.

5 ADV SELLO: I'm trying to assist the chair probably one more time and your testimony has been that you understood Directive 4/147 to contemplate an establishment of a workgroup and that such workgroup is what subsequently came to be known as SOFCOM, is that correct?

10 MR GRIESEL: Correct.

ADV SELLO: Now if one has regard to that Directive 4/147 and again to your evidence and in particular that you understood the workgroup contemplated, you understood its function to be to conduct a second order evaluation my
15 question is the functions as listed in paragraph 3 at page 55, are those, do those fall within the second order evaluation as you understand it, or do they go beyond?

MR GRIESEL: They certainly go beyond. The policy Directive 1/147 contemplates a body that would do a second
20 order evaluation but more importantly contemplates the existence of a second order value system to be determined by an interdepartmental committee. The other functions of the SOFCOM was of coordinating nature and this would not be untoward for a Chief of Acquisition or a general manager of
25 ARMSCOR to say that we need to coordinate but it has got no

30 SEPTEMBER 2013

PHASE 1

decision making powers, it's just to make sure that the different programmes are aligned. But this, the constitution as indicated here certainly goes beyond what is contemplated in the Ministerial Directive.

5 ADV SELLO: Thank you. You will in the course of time deal with the powers and functions and decision making nature of SOFCOM and that's an issue you are going to spend some time on and take the Commission through. That being the case
10 Chair I see it's almost 16h00, would this be an appropriate time to adjourn and we start on the topic as I've described it first thing tomorrow?

CHAIRPERSON: We'll adjourn until tomorrow morning.
Thank you.

15

(COMMISSION ADJOURNS)