NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 2837 [NW3434E]
DATE OF PUBLICATION: 2 SEPTEMBER 2022

2837.   Mr E M Buthelezi (IFP) to ask the Minister of Finance:

With regard to the wasteful expenditure of R339,47 million at the National Treasury that was recently reported by the Auditor-General, what measures will be put in place and/or strengthened to curb wasteful expenditure?   NW3434E

REPLY

The Integrated Financial Management System (IFMS) project is a contractual commitment signed by Government in 2016 with ORACLE, following a proper procurement process after Cabinet approved the project in 2014. The project is a joint project of National Treasury (NT), the Department of Public Service and Administration (DPSA) and the State Information Technology Agency (SITA). As approved by Cabinet, NT is the project sponsor and policy owner for financial and supply chain management; the DPSA is the policy owner for Human Resource management and information and communication technology; and SITA the solution provider and Prime System Integrator. The project is managed by a Steering Committee where all three parties as well as the Department of Communication and Digital Technology are represented and led by each respective Director-General. The actual spending responsibility is with the National Treasury, with the Director-General of NT as the accounting officer.

In terms of the IFMS contract, NT is paying annual support and maintenance fee. To date a total amount of R339.47 million is the cumulative amount paid since 2016/17, as noted in *Table 1: Expenditure on IFMS support and maintenance.*

Table 1: Expenditure on IFMS support and maintenance

DESCRIPTION	FINANCIAL YEAR					TOTAL AMOUNT
	2016/17 **R'000**	**2017/18** **R'000**	**2018/19** **R'000**	**2019/20** **R'000**	**2020/21** **R'000**	**R'000**
Annual Fee	69 614	67 021	67 609	67 609	67 614	**339 7**

This is the amount that the Auditor-General has, since 2016/17, regarded as fruitless and wasteful expenditure, despite the fact that it is payment made in line with a contractual commitment. Aside from the fact that such payment, in the view of NT, is not made in vain and therefore not fruitless and wasteful. Failing to pay the amount would result in both legal and financial implications for the department (which would then be deemed to be also fruitless and wasteful expenditure). NT has declared a dispute since the 2016/17 financial year with the Auditor-General of South Africa (AGSA) with regard to its approach in finding such legitimate expenditure for the IFMS annual support and maintenance as fruitless and

wasteful. The implementation delays related to IFMS are acknowledged by NT as explained below, but which cannot make a contractual expenditure fruitless and wasteful. It should be noted that not a single cent of the expenditure has been regarded by the AGSA or any forensic investigations that have been conducted to date as suspicious or inappropriate.

The licence support and maintenance fee are paid annually to ensure that the IFMS project is able to have automatic access to updated versions of licenses and software patches, including security patches and updates as well as specialised technical problem solving when required in preparation for the full implementation of IFMS. The licence support and maintenance mitigates the risk of IFMS being outdated and not being supportable and being exposed to security vulnerabilities. The support and maintenance of the contract has been utilised. It would be extremely risky and negligent to proceed with the IFMS implementation without having support and maintenance.

If the support and maintenance is not renewed, there will be both legal and financial implications for the department. It must be noted that when IFMS has a need to access the updated licenses and software, Oracle will backdate the cost to the date when the support and maintenance agreement was last renewed. In addition, the cost to suspend the maintenance and support to a later date will be 150% of the net price compared to paying the annual renewal. Furthermore, the 150% penalty will result in the payment of a higher price than the original contract. Additionally, the price discounts scheduled across the period will be lost and the fee will be backdated to the last point of purchase / cancellation. This means that the department will give up discounts afforded to the state, incur fruitless and wasteful expenditure in terms of penalties and will have to spend more as the cost will be backdated. Should the department not have renewed the support and maintenance for the 2021/22 financial year, an amount of R151 711 280.24 will be required to reinstate the licenses.

The implementation of the IFMS has been adversely affected following the Gupta-media ANN7 channel launched an attack on the NT in 2017 making claims regarding some payments, using a leaked internal audit unit report as their basis. Despite forensic investigations, and investigations by the Directorate for Priority Crime Investigation, Special Investigation Unit, the State Capture Commission and the Public Protector of South Africa, some of which are ongoing, there has been no indication of any suspicious payments to date. However, while a number of these investigations are still in progress, this generates great uncertainty which impacts negatively on the ability of the department to implement IMFS.

Implementation has been significantly delayed due to three unsuccessful attempts by SITA to procure a service provider since the 2018/19 financial year. According to the SITA Act, the department must procure information and communication technology goods and services through SITA. The third and most recent unsuccessful procurement process was embarked on during the 2021/22 financial year with SITA. However, it did not result in appointment of a service provider due to the quoted price far exceeding the budgeted amount.

NT believes that Government has no choice but to successfully implement the IFMS, considering that the current legacy systems like PERSEL and BAS are antiquated, even using outdated programming languages. NT is engaging with Oracle to consider how best to speed up implementation of IFMS and modernise the financial management system, including the procurement system. Risk mitigation measures are being implemented as preparations are underway to initiate another procurement process given that implementation of the IFMS is dependent on successful appointment of a service provider.