

IFMS BRIEFING

TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

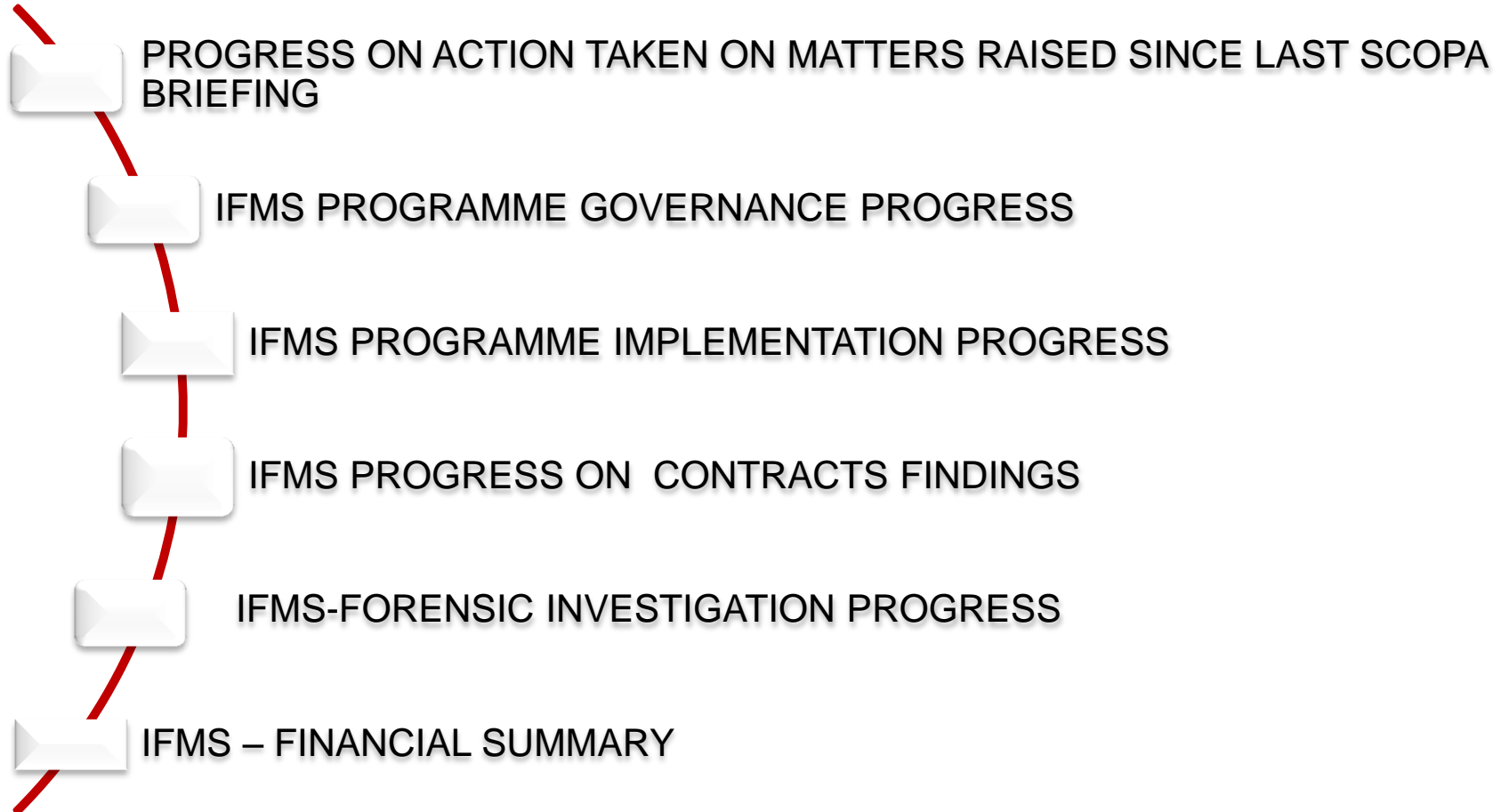
05 JUNE 2018



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NAVIGATING THE PRESENTATION



PROGRESS ON ACTION TAKEN ON MATTERS RAISED SINCE LAST SCOPA BRIEFING

MATTER	PROGRESS
Programme Strategy and Systems Blueprint	<p>The existing IFMS programme strategy is being updated to reflect recent development and progress. This includes confirming the programme baseline plan, approval for the Phase 2A project plan, completing the change management strategy and commencing the change readiness for the identified pilot sites (Reference Slide 12 for detail).</p> <p>The systems blueprint central design is progressing in the architectural planning and design phase (part of Oracle deliverables) (Reference Slide 12 for detail).</p>
Address weaknesses in IFMS Governance	Governance as envisaged by the programme governance model reviewed and both structures and processes strengthened (Reference Slide 7 for detail).
Addressing resource and management capacity constraints in the IFMS	The recruitment process to appoint a Chief Director IFMS is in its final stage. Additional project management resources provided by SITA. Change management capacity on-boarded (SP) (Reference Slide 12 for detail).

PROGRESS ON ACTION TAKEN ON MATTERS RAISED SINCE LAST SCOPA BRIEFING

MATTER	PROGRESS
Addressing weaknesses in controls	Financial controls have been strengthened including verification of invoices for payment by NT Internal Audit Unit. Programme Risks are being monitored by project risk committee as well as the National Treasury Risk Committee. Measures are being put into place to ensure that all IFMS procurement is considered by OCPO.
Finalisation of forensic investigation into the IFMS	Two extensions for the finalisation of the investigation has since been requested by the forensic investigators and granted with the new deadline set for 12 July 2018. No further extensions will be considered by NT. (Reference Slide 15 for detail).
Contract matters	Oracle-provided NT with a written undertaking addressing matters raised as external audit findings. This has been submitted to the AGSA and NT awaits their response (Reference Slide 13 for detail).
	Extensive engagements with ICT-works has been constructive for both parties with matters of concern being addressed. In respect of the external audit findings, a number of options have been formulated which are currently being considered by NT and on decision will be actioned (Reference Slide 14 for detail).

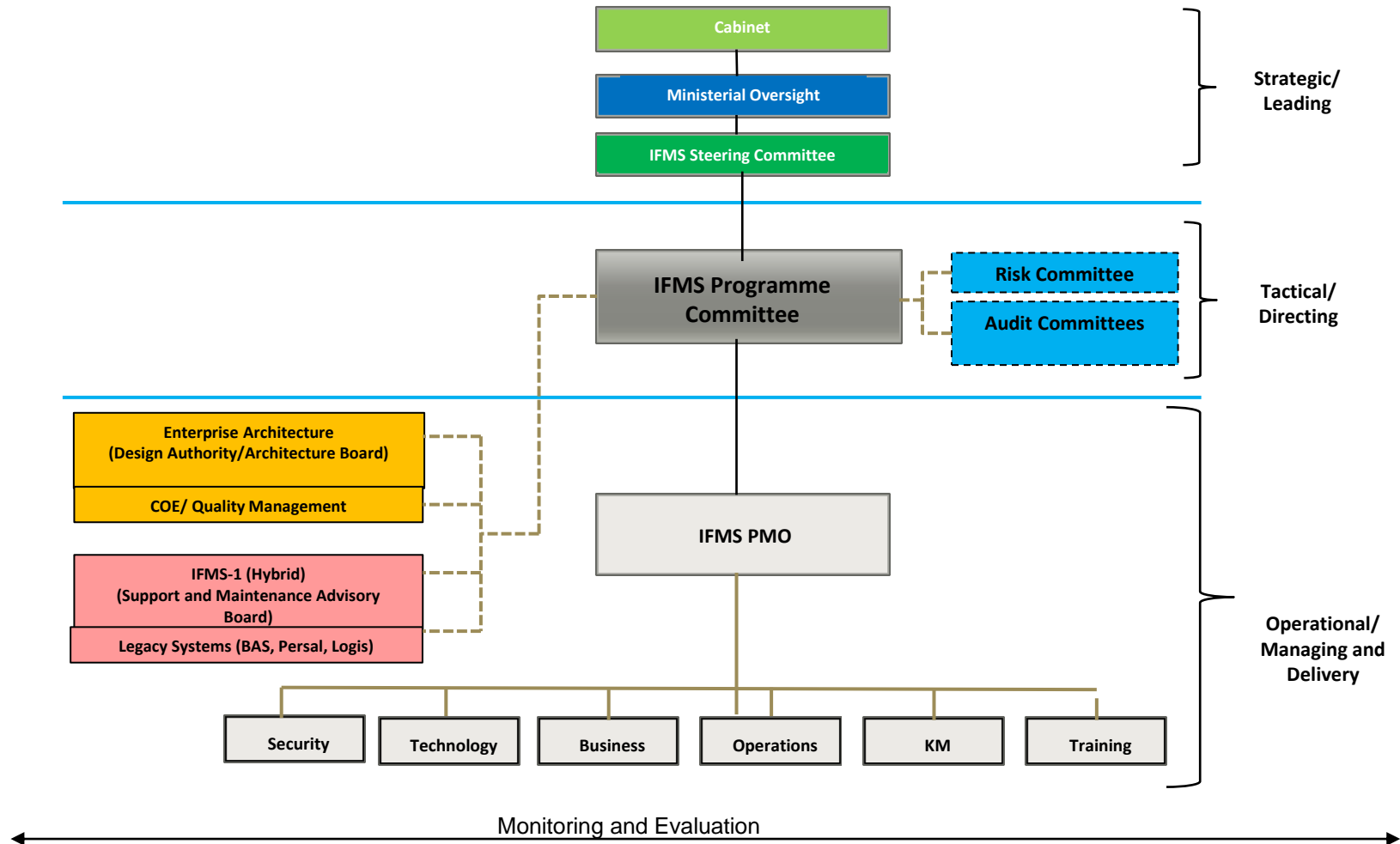
PROGRESS ON ACTION TAKEN ON MATTERS RAISED SINCE LAST SCOPA BRIEFING

MATTER	PROGRESS
IFMS local procurement	The intention is to utilise local companies for the implementation of the IFMS solution in the approximately 165 departments in the Public Service. A database of pre-approved Oracle certified implementation partners is to be established through an open procurement process which SITA will manage. These companies will range from large organisations with a national footprint to small provincially based organisations. Quotations will be obtained from the companies on the database for implementations in specific departments. Due to the size and scope of the IFMS Programme, this will promote skills development, job creation and growth in the local ICT industry
Ownership of Intellectual Property	The intellectual property inherent in the ERP software belongs to Oracle but any software developed for the South African Public Service as part of the implementation of the IFMS will belong to Government. Any data to be captured on the system will belong to the relevant Public Service department that captured the data.

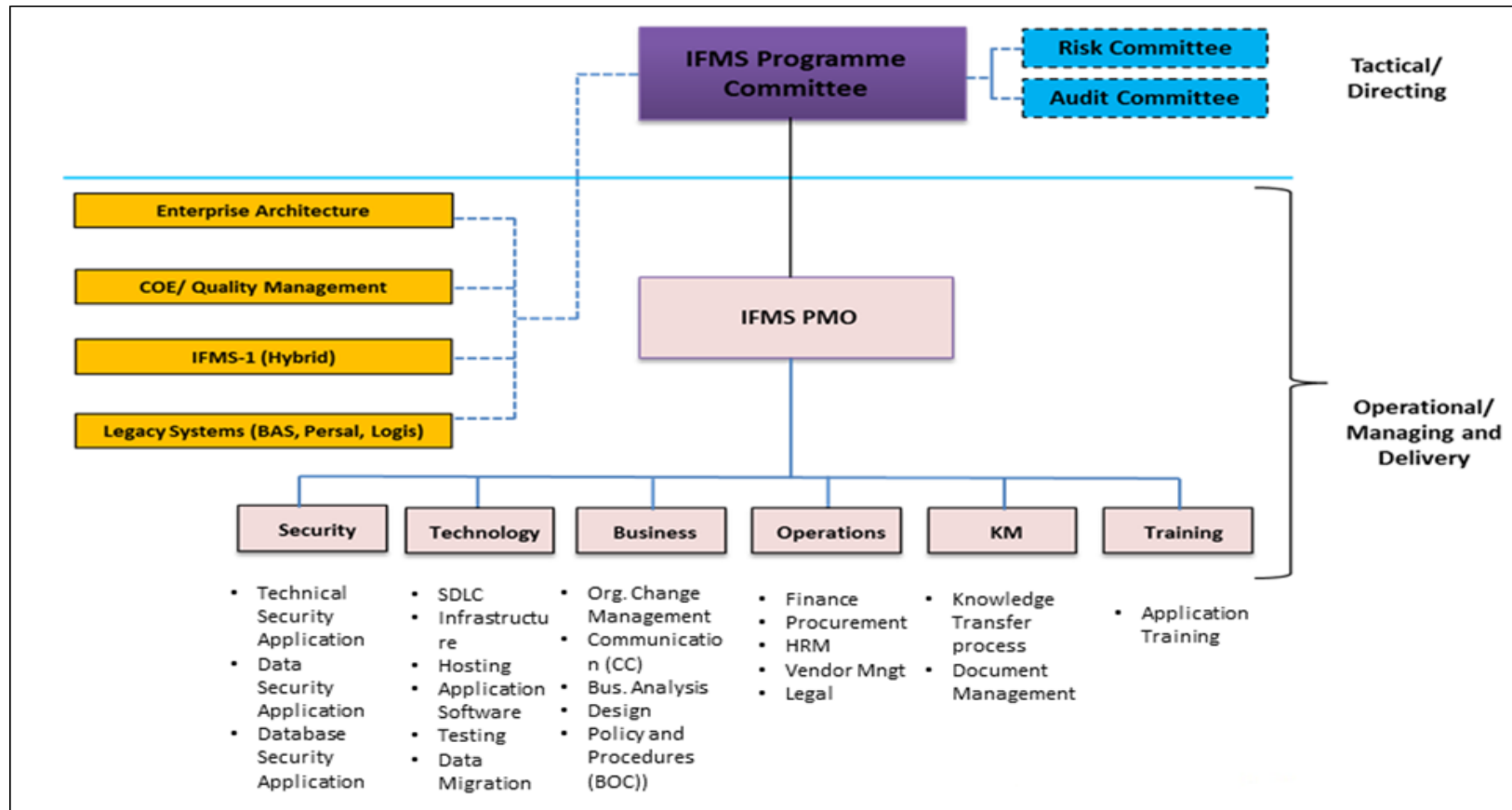
PROGRESS ON ACTION TAKEN ON MATTERS RAISED SINCE LAST SCOPA BRIEFING

MATTER	PROGRESS
The process seems to have taken a long time	<p>It is recognised that it appears as if it took an excessively long period of time to finalise the appointment of a software provider. In this regard it should be noted that soon after the approval of IFMS 2 by Cabinet in November 2013, a bid was published (Request for Proposals (RFP) 1182/2013) on 20 March 2014 with a closing date of 23 April 2014. Two tenders were received. One of the major ERP vendors in South Africa, submitted an objection to the process. Legal opinions were obtained and it was decided to allow the RFP not to be awarded and after its validity period expired, it was allowed to lapse. In order to avoid future similar objections, it was decided to separate the acquisition of the COTS ERP software and the lead site implementation services during future procurement processes. Subsequently, a new RFP was published on 28 November 2014 with a closing date of 30 January 2015. The bids received in response to the RFP were evaluated through the prescribed processes which included oversight by internal and external auditors. This process resulted in Oracle being selected as the preferred bidder. An extensive process of preparations and contract negotiations ensued and this culminated in the conclusion of a contract with Oracle on 30 April 2016.</p>

PROGRAMME GOVERNANCE STRUCTURE AND PROCESSES STRENGTHENED

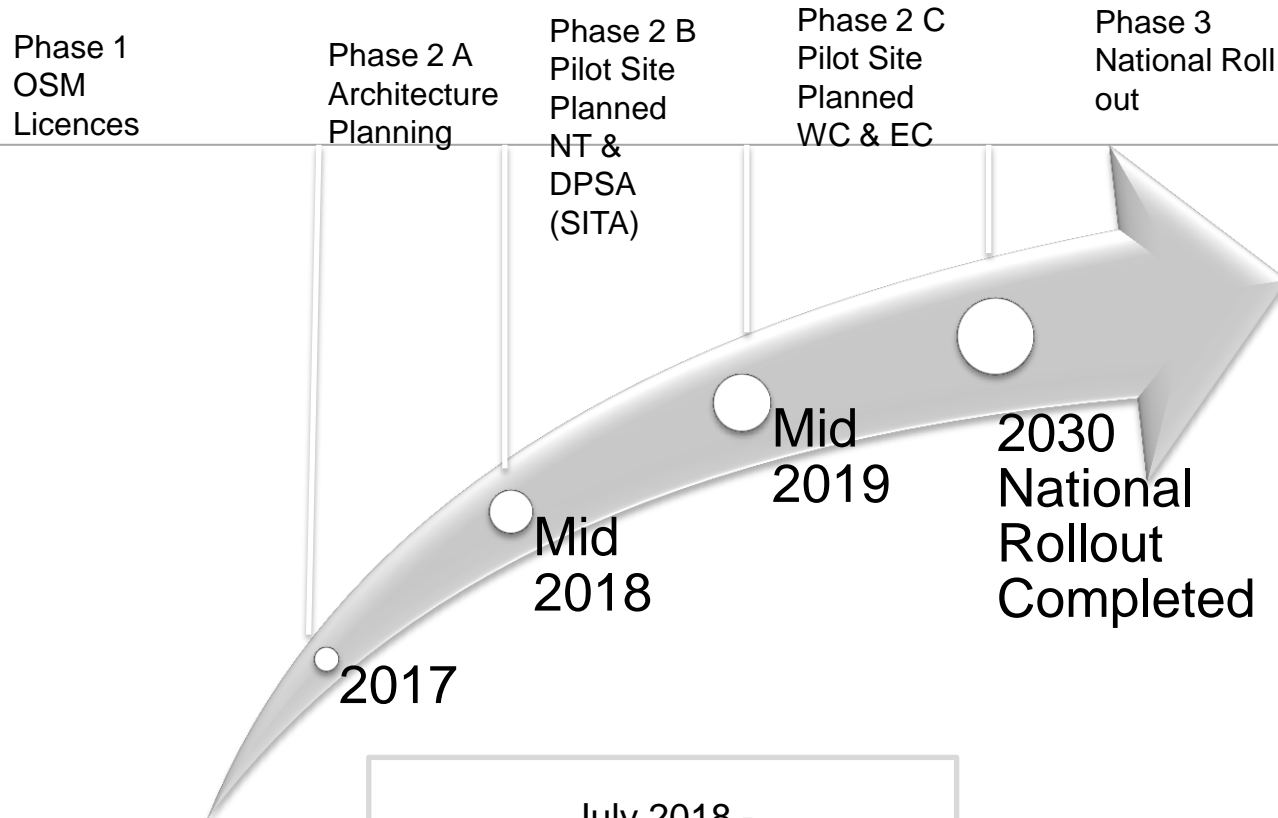


IFMS WORKSTREAMS AND SCOPE OF WORK



Monitoring and Evaluation linking into IFMS lead partners, pilots and departments reporting eco-system

IFMS 2 STRATEGIC ROADMAP



July 2018 -
June 2019
IFMS modules

- Fin
- HRM
- PAY
- SCM
- BI

IFMS 2 PROGRAMME IMPLEMENTATION APPROACH

The following detail describes the phases and sub-phases in more detail:

Phase 1: Software agreement

- Completed with contractual agreement with Oracle (software only).

Phase 2: Focuses on the development of the Generic Template (GT) that will be used for implementation and roll-out (Pilot Sites & Lead Sites). Three sub-phases agreed:

2A: Design and Template Development (Planned to take 7 months, November 2017 – June 2018)

- *Planning, scope, objectives & approach*
- *Procurement of implementation services and hosting infrastructure*
- *Develop generic solution baseline - GT0*
- *Policy owners and assigned business representatives to participate in GT0 design phases to be as inclusive as possible*

Phase 2B - Pilot Site Implementation (Planned to take 12 months, July 2018 – June 2019)

- *Implement and Refinement of GT0 at Pilot Sites (Planned DPSA & NT) into GT1*
- *Establish the Centre of Excellence (CoE)*

Phase 2C - Lead Site Implementation (Planned to take 18 months, September 2019 – February 2021)

- *Refinement of GT1 into GT2 at Lead Sites (Planned Eastern Cape and Western Cape).*

IFMS 2 PROGRAMME IMPLEMENTATION APPROACH (CONT.)

Phase 3: National Roll-out (To commence in April 2021)

- Long-term planning for Phase 3 is still not quantified, dependent on strategy and resourcing.
- Standard departments will implement GT2, additional requirements to be considered through a formal change process.
- GT2 will be expanded for the differentiated departments' legislative requirements (e.g. DOD, SAPS, Education and Health), culminating in GT3.
- GT3 locked down and formal change management process in place.
- The implementation and hosting approach for the differentiated departments to be clarified.

PROGRESS MADE

GOVERNANCE



- Governance structures and processes strengthened
- Programme delivery governance structures established (BOC and Architecture Board)

PLANNING



- Strategic Plan: Revised programme baseline and implementation approved
- Programme Plan: Approval of detailed project plan for phase 2A
- Technical Blue Print: Central Planning – Architectural Planning and design underway
IT strategy completed
Drafting Data migration strategy, decommissioning strategy, roll out plan with MOUs and funding model

HOSTING



- Environment for Oracle e-business suite completed
- Commenced setting up SITA center of excellence
- Draft ToR for panel of service providers completed

CHANGE MANAGEMENT



- Organisational Change Management strategy approved
- Stakeholder Engagement strategy approved

CONTRACT MATTERS AND ADDRESSING AUDIT FINDINGS

In respect of findings relating to the contract with Oracle

- Oracle-provided NT with a written undertaking which has been submitted to the AGSA and NT awaits their response
- In terms of which, Oracle records, that had NT not purchased support with the licences purchased:
 - NT would have been charged the standard 22% support fee as opposed to the preferential rate of 17% negotiated.
 - Would have had to pay a re-instatement fee of 150% of the net support fee when support was required.
 - Forfeited the following negotiated support fee annual increases
 - 0% increase for the first to fourth renewal years
 - Not more than a 1% increase for the fifth to the ninth renewal years
 - Not more than a 5% increase for the tenth to the nineteenth renewals years
 - This equals savings of:
 - An extremely favourable price for both licenses and support discounted at 98%
 - The list license price was in excess of R27bn and after the discount was applied it was R345, 825, 229.

CONTRACT MATTERS AND ADDRESSING AUDIT FINDINGS

In respect of ICT-works

- Extensive constructive and productive engagements have been held with any articulated concerns regarding previous quality of services having been resolved. Measures have been put into place to ensure parties not only comply with the stipulations of agreements but realise value.
- Consultations have been held on addressing matters raised as external audit findings.
- A number of options have been formulated which are currently being considered by NT and on decision will be actioned

IFMS - FORENSIC INVESTIGATION

The National Treasury (NT) followed a full tender process to appoint a Forensic Investigation Firm to Investigate the IFMS project as requested by its Audit Committee. This has previously been shared with SCoPA in the two previous briefings the National Treasury has had with the committee on the IFMS progress

- Nexus Forensics was appointed on 1 February 2018 to conduct this investigation (Terms of reference has been provided)
- Due to some delays experienced in the extracting of information required and the further in depth analysis that the investigation team had to do including interviews with officials who have since left the Public Service, 2 extensions to the finalisation of the investigation has since been requested and granted with the new deadline agreed upon being set for 12 July 2018
- Nexus Forensic Investigators have been instructed that no further extensions will be considered and a final report will be expected by 2 July 2018 with limitations if necessary.
- It is important to note that the requested and granted period extension for the finalisation will have no financial impact on the originally quoted and agreed upon costs of the investigation.

COST ELEMENTS SUBMITTED TO CABINET

Cost Elements	Overall Amount
Expense Already Incurred (as at 11 October 2013)	
National Treasury (since inception)	R 768 806 611
SITA (since 2012)	R 280 310 380
Sub Total (A)	R 1 049 116 991
Projected Expenses based on revised solution architecture	
Software License Fees	R 422 000 000
Annual License Maintenance Fee	R 630 960 147
Professional Services (e.g. Configuration, Implementation, and Change Management)	R 1 286 894 683
Project Management Unit	R 145 924 202
Sundries (e.g. Audit Fees)	R 81 337 552
SITA Operating Expenses	R 268 548 534
SITA Hosting Services	R 325 350 209
Sub Total (B)	R 3 161 015 327
Total (A + B)	R 4 210 132 318
Revised cost estimates (2010, as submitted to the IFMS Steering Committee)	
Product Development	R 1 585 100 000
Product Implementation	R 2 725 600 000
Total (C)	R 4 310 700 000
Difference = (A + B - C)	-R 100 567 682

Total Cost of Ownership (TCO)

Implementation + 2 Year TCO

Full Project Cost (to implement the ERP)	65.40%
Operational in year 1 after live date	20%
Operational in year 2 after live date	14.60%
TOTAL	100.00%

Full Project Costs

Software makes up	23%
Hardware makes up	8%
Professional Services / SI makes up	43%
Internal Staff & Training makes up	26%

Functional Allocation

Buss. Proc. (Re)Design	46%
Configuration / Development	17%
Data Migration & Cleansing	13%
Integration to Back Ends	15%
User Training Costs	9%

Adapted from Gartner presentation

COST SUMMARY 2009/2010 – 2018/2019

	2009 - 2012/13 R'000	2013/2014 R'000	2014/2015 R'000	2015/2016 R'000	2016/2017 R'000	2017/2018 R'000	2018/19 R'000	TOTAL R'000
REVENUE								
Final Appropriation*	691 581	194 626	167 366	180 286	556 985	123 812	350 134	1 914 656
EXPENDITURE								
Current Expenditure	579 324	194 626	167 366	180 273	556 448	112 241	3 089	1 793 366
Compensation of Employees	-	-	-	1 916	3 786	2 842	500	9 044
Goods and services	579 324	194 626	167 366	178 357	552 589	109 398	2 589	1 784 249
Transfers and Subsidies	-	-	-	-	73	-	-	73
CAPITAL EXPENDITURE								
Payments of Capital Assets	-	-	-	-	2	-	-	2
Surplus/(deficit) for the year	112 257	0	0	13	535	11 578	3 089	121 288

*Final budget after the adjustments and virement occurred during the year

COST SUMMARY 2009/2010 – 2018/2019

FY	Original Budget	Adjustments	Virements	Final Budget	Actual Outcome	Variance
2020/21	R 256 350 000	R 0	R 0	R 256 350 000	R 0	R 256 350 000
2019/20	R 242 986 000	R 0	R 0	R 242 986 000	R 0	R 242 986 000
2018/19	R 350 134 000	R 0	R 0	R 350 134 000	R 3 089 734	R 347 044 266
Total	R 849 470 000	R 0	R 0	R 849 470 000	R 3 089 734	R 846 380 266
2017/18	R 353 467 000	R 0	-R 230 300 000	R 123 167 000	R 112 240 810	R 10 926 190
2016/17	R 207 302 000	R 349 274 000	R 409 000	R 556 985 000	R 556 449 955	R 535 045
2015/16	R 180 301 000		-R 15 000	R 180 286 000	R 180 272 799	R 13 201
2014/15	R 174 149 000	-R 10 000 000	R 3 217 000	R 167 366 000	R 167 365 607	R 393
2013/14	R 166 231 000		R 28 395 000	R 194 626 000	R 194 625 941	R 59
2012/13	R 165 754 000	R 11 363 000		R 177 117 000	R 152 584 203	R 24 532 797
2011/12	R 164 580 000		-R 40 185 000	R 124 395 000	R 79 551 805	R 44 843 195
2010/11	R 239 326 000	-R 22 339 000	-R 37 644 000	R 179 343 000	R 169 704 702	R 9 638 298
2009/10	R 0	R 249 046 000	-R 38 320 000	R 210 726 000	R 177 482 921	R 33 243 079
Total	R 1 651 110 000	R 577 344 000	-R 314 443 000	R 1 914 011 000	R 1 790 278 743	R 123 732 257
					R 1 793 368 477	

ANALYSIS OF TOTAL EXPENDITURE YTD

R'000

IFMS 1 costs	1 070 187
Development costs	896 450
Maintenance costs	173 737
IFMS 2 Costs	723 181
Staff costs	8 695
Software licenses	394 337
Annual maintenance of licenses	137 041
Central Supplier Database	52 392
Consulting services (programme management legal services probity investigations design business process reviews website change management)	130 716
	<u>1 793 368</u>

In addition there is R58 million (excluding VAT) committed for 2018/19 financial year for Support and maintenance fee.

THANK YOU

TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

05 JUNE 2018



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