**Report of the Standing Committee on Finance on the Oversight Visit to the National Treasury, dated 02 May 2023**

1. **INTRODUCTION**
	1. The Standing Committee on Finance (SOCF/ the Committee) undertook an oversight visit to the National Treasury (NT) on 29 March 2023 in Gauteng. The main purpose of the visit to NT was to get a briefing on the implementation of its audit action plan, and a briefing and walkabout tour of the Integrated Financial Management System (IFMS), which resulted in a qualified audit opinion with findings.
	2. The Committee also sought to understand if the matters that have led to the audit qualification and material irregularity will not recur in future audits. It is not clear to the Committee, whether not declaring the payments as fruitless and wasteful in the previous years, will resolve the disputes between AGSA and NT in future audits.
	3. The Auditor General of South Africa (AGSA) briefed the SCOF on 21 February 2023 about the audit outcomes of the finance portfolio. A decision was taken by the Committee to conduct an oversight visit to the National Treasury and all entities that had negative audit outcomes for 2021/22. The Committee conducted the same exercise last year with regards to the audit outcomes of 2020/21 financial year. The Committee’s visit to NT/IFMS last year was however cancelled on the last minute as the Minister and the Director-General were attending the World Bank – IMF Spring Meetings in Washington DC.
	4. The entities visited on 29 and 30 March 2023 were the National Treasury, Cooperative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), the Office of the Pension Funds Adjudicator (OPFA), Government Technical Advisory Centre (GTAC), Government Pensions Administration Agency (GPAA) and Public Investment Corporation (PIC).
2. **DELEGATION**

Parliamentary Delegation

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms Z Nkomo (ANC), Mr P Masualle (ANC), Ms W Alexander (DA), and Mr W Wessels (FF+). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Ms Cele-Ntshinka (Committee Assistant), Dr Z Hlophe (Content Advisor), and Ms A Manamela (Researcher).

National Treasury Delegation

* 1. The NT delegation for the audit action plan session comprised of: Dr D Masondo (Deputy Minister of Finance), Mr I Momoniat (Acting Director-General), Ms L Mseme (Acting Chief Operations Officer), Mr S Khan (Accountant-General), Mr S Mngomezulu (Chairperson Audit Committee), Mr L Batwa (Parliamentary Officer), and Ms N Mahori (Parliamentary Officer).
	2. The NT delegation for the IFMS session comprised of: Mr S Khan (Accountant-General), Mr L Batwa (Parliamentary Officer), and Ms N Mahori (Parliamentary Officer), Mr M La Grange (BAS/Logis), Ms S Bikitsha (Intern), Ms L Coetzee (Project Manager), Ms L Rabe (Deputy Director: Persal), Ms M Seeme (Deputy Director: FS Training), Ms F Diploko (Deputy Director: Logis), Ms N Magwerana (Director: BAS/Logis), Mr M Sehlolo (Project Manager), Mr J Greyling (Project Manager), Ms J Nkhuna (Deputy Director), Ms S Toyer (Manager), Mr S Barton (Manager), Mr L Daly (Director: Technology), Ms D Lebea (Chief Director: IFMS), Ms B Goba (Oracle Director), Mr R Misra (VP Gulf & Africa Oracle), Mr A Sinichar (Country Leader Oracle), Mr J Scharneck (Account Executive), and Ms N Gora (Consultant)

AGSA Delegation

2.3 The Auditor-General delegation comprised of: Ms M Madondo (Senior Manager), Mr L Kuse (Senior Manager), Ms N Matanzima (Business Unit Leader), Ms K Naicker (Deputy Business Unit Leader), and Mr M Jimmy (Acting Product Champion).

1. **OVERVIEW OF NATIONAL TREASURY AUDIT OUTCOMES ON IFMS**
	1. NT regressed from an unqualified audit opinion with findings to a qualified audit opinion. The qualified audit findings resulted from an incomplete disclosure of fruitless and wasteful expenditure relating to the IFMS II project expenditure.
	2. NT lodged a formal dispute on the classification of the IFMS technical support and maintenance as fruitless and wasteful expenditure and removed the disclosure of fruitless and wasteful expenditure on the revised Annual Financial Statements (submitted on 20 October 2022) and instead disclosed the previous fruitless and wasteful expenditure as a prior period error on an incorrect basis that such a determination can only be concluded once the system is fully rolled out and NT reclassified the Oracle licenses for the IFMS as capital work in progress.
	3. AGSA disagreed and as a result, this resulted in a modification (qualification) of the 2021/22 audit report of National Treasury.
	4. NT was last year included for the implementation of the material irregularity in terms of the Public Audit Act because of the IFMS project expenditure. The formal material irregularity notification was issued to the accounting officer of NT, as required by Material Irregularity Regulation 3(2), and the accounting officer had responded to the notification.
	5. AGSA also decided to refer the matter to the Special Investigations Unit (SIU) for further investigation in January 2022 and the investigation is still in progress. There is also an ongoing Public Protector investigation on the IFMS into alleged mismanagement, irregular and wasteful expenditure.
2. **NT ACTION PLAN ON 2021/22 AUDIT OUTCOMES**
	1. NT reported that it had resolved 93% of its 2021/22 audit findings as at 24 March 2023, and 7% were in the process of being resolved. These included 39 findings, 36 of which had been resolved by various business units of NT. Thirteen of these findings were on finance, three- human resources, eight- information technology, three- supply chain management, one – office of the Director-General, one- GPAA, and three – Office of the Accountant-General -IFMS.
3. **PRESENTATION OF THE IFMS PROJECT**

Current Landscape of the Legacy Systems

* 1. NT reported to the Committee that IMFS was conceived on order to modernise the IT environment within government owing to the inefficiencies of the legacy IT systems. It explained that it maintains four legacy systems for most National and Provincial Departments, and some related entities. These systems include:
		1. Personnel & Salaries System (PERSAL) - A salary and payroll administration system, including a human resource administration component. Monthly pays 1,5 million salaries, SASSA payment files for 12.6 million citizens;
		2. The Basic Accounting System (BAS) - An online, real-time, custom-built general ledger system aligned to National Government financial reform objectives and best practice. 1,5 million daily transactions, 39k users;
		3. Logistical Information System (LOGIS) - A provisioning and stock administration system. 178k monthly transactions, 34k users; and
		4. Vulindlela - Management information warehouse system. 45 thousand monthly reports, 1729 registered users.

The challenge of legacy systems

* 1. NT explained that it was important to modernise and automate government’s financial, procurement, human resources, planning, monitoring, and reporting systems as the suite of technology was ageing. It explained that there were limited resources and skills available to support and maintain the current modified cash-based legacy systems. They had also become expensive to main and were inflexible to fully meet the needs of users.

The need for modernisation

* 1. NT explained that the objective of the IFMS is to replace legacy systems with a modernised integrated financial management system. The IFMS program ultimately will contribute to and enable Government to achieve the following outcomes:
		1. Minimise unauthorised, irregular and fruitless expenditure;
		2. Minimise fraud and corruption;
		3. Improve decision-making and accountability for expenditure or revenues generated;
		4. Consolidate and monitor government spending; and
		5. Create the potential for improved audit outcomes of government departments.

History of the IFMS

* 1. NT explained that the initial programme, known as IFMS I, was mandated by Cabinet in 2005, and IFMS2 -- in 2013 because of recommendations from three independent reviews. The first was a bespoke system. The second was an off-the-shelf system after the implementation of IFMS became unfeasible.

IFMS Stakeholders

* 1. NT explained that there were four main stakeholders in the IFMS echo system. These were NT (sponsor and policy owner), the Department of Public Service and Administration (DPSA- policy owner and human resource management), the DCDT n(development of ICT policy and oversight of SITA activities) and SITA Services (hosting services- IT infrastructure).

Factor delaying the implementation of the IFMS

* 1. NT explained that from 2018 to date, IFMS had 3 unsuccessful procurement calls through SITA. It said that delays in procurement have result in delays in implementation, causing fruitless and wasteful expenditure.
	2. It said that IFMS Partners had not all signed the Steering Committee Memorandum of Understanding, which has negatively impacted decision-making, progress and resulted in audit findings.
	3. NT further highlighted lack of commitment by partners. It further said that complex governance structures have resulted in delays in decision-making and negatively impacting on progress.
	4. NT further highlight the classification of fruitless and wasteful expenditure by AGSA since 2016 because of IFMS licence support and maintenance audit finding which continues to be in dispute, as a cause of the delay.
	5. NT further noted that the IFMS project has been investigated by many agencies such as the Hawks, SIU, Zondo Commission, Public Protector, DELOITTE, and NEXUS. It said that these investigations were caused by negative publicity.
	6. NT further explained that the delays in IFMS 2 implementation is mainly due to unsuccessful procurement by SITA. It explained that in 2018, NT tasked SITA with the procurement of a service provider to execute work for the next phase of the programme. There were delays with the procurement process at SITA and in 2019 the SITA/Oracle Framework Agreement which was the procurement vehicle lapsed. In 2020, efforts to procure services utilising existing contract were not successful due to limitations on the scope of the contract. In 2021, NT tasked SITA with procuring the services from the newly signed Framework Agreement between SITA and Oracle. The process was not successful due to the exorbitant proposed amount far exceeding the budgeted amount.

Current Status

* 1. NT explained that phase 1 (procurement of licenses) and Phase 2A (Envision (architecture planning and strategy) were already implemented. What was now missing was to appoint a supplier that will lead the implementation of Phase 2B (e-Recruitment and generic system initiated by NT and DPSA), Phase 2C (e-Recruitment Roll-Out and IFMS System Pilot), Phase 3 (National Rollout).

Financials

* 1. NT explained that the original budget of the IFMS was R4 210 132 318 (R4.2 billion). R1 049 116 991 (R1.0 billion) was spent on IFMS I which was discontinued before 2013 and R1 606 946 374 (R1.6 billion) resulting on an overall expenditure of R2 656 063 365 on the IFMS project to date. The remaining project budget is R1 554 068 953.

Conclusion

* 1. NT emphasised that the IFMS implementation remains necessary and urgent in order to modernise the financial management system within national and provincial government. NT explained that procurement to appoint a service provider will be completed in Q123/24.
	2. NT explained that on the advice of AGSA, NT is engaging with Oracle to renegotiate the software license and maintenance support contract.
1. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
	1. The Committee notes that NT had implemented and resolved 93% of its 2021/22 audit actions as of 23 March 2023. The Committee requests an update on the unresolved matters in the next quarterly briefing by NT.
	2. The Committee is not convinced that NT will achieve better audit outcomes in 2022/23 because of the IFMS project, which has been dragging on for the past 18 years (when IFMS I) is considered.
	3. After the Committee received a briefing from NT on the audit action plan and the IFMS project, it was taken on a tour of the IFMS project, which was supposedly hosted by SITA at its Head Office in Centurion. However, on its arrival, the Committee was shown the legacy IT systems such as PERSAL, BAS and LOGIS. It became clear to the Committee that there are complex issues which need a further enquiry into the IFMS project.
	4. The rationale behind this further enquiry is that: R2, 6 billion of taxpayers’ money has been spent on this project; AGSA has found that about R400million of this money constituted fruitless and wasteful expenditure; AGSA has raised a qualified audit opinion on NT for failure to declare this fruitless and wasteful expenditure and; many investigations have been or are being conducted by various agencies of state including the SIU, the Public Protector, and the Hawks.
	5. The Committee will request a briefing by all the IFMS project partners (NT, DPSA, DTDC and SITA) to have a deeper understand of what happened on this project. The Committee will also request an update on the investigations through a presentation of all the completed forensic investigation reports on this project by NT and other relevant parties.
	6. The Committee makes more observations and recommendations on NT’s plans in the Budget Vote report to be tabled on 03 May 2023.

The Standing Committee on Finance asks the National Assembly to adopt this Oversight Report.

Report to be considered.

The DA reserves its position.