

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 3372 [NW3860E]
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3372. Mr M M Dlamini (EFF) to ask the Minister of Finance:

(1) Why did the SA Revenue Service (SARS), purchase a certain company (name furnished) for R27 million when it was valued at R2 million, (b) how did SARS arrive at the figure of R27 million and (c) what services did the specified company provide to SARS;

- a) SARS did not purchase Interfront SOC Ltd. The said company was formed by SARS with the required consent/approvals from the Minister and Treasury as required by the PFMA. SARS purchased the business and assets of Tatis International (Pty) Ltd (Tatis) which consisted mainly of the intellectual property (IP) in the customs solution software called TATIScms and employed Tatis's skilled IT staff using Interfront as the legal entity as a wholly owned subsidiary of SARS. The total purchase consideration for the IP and assets of Tatis was not R27m but valued at R98m of which Accenture and Tatis Africa contributed R14m each for reseller rights. Accenture's contribution was in the form of cash paid to Interfront (CLIDET at the time) and Tatis Africa a discount to the IP value. SARS is not aware of the allegation that the value of Tatis was R2m. Revenue collected by Interfront from Luxembourg for support and maintenance on the system for the period 2011-2018 amounted to R77m. A further R11m per annual is forecasted for the next 3 years.
- b) This question is answered under (a). Interfront firstly, modernised the Customs system to an electronic IT system which was implemented in SARS in 2013 and secondly has been building a new more modern electronic customs solution system to implement the new Customs Act.

(2) following the purchase of the specified company, (a) what amount did SARS spend on information and technology (IT) services and (b) why were the IT services of the specified company needed in view of SARS' purchase?

- a) SARS spent to date (31 Oct 2018-accruals included) a total amount of R784m, of which R669m is for software development, on all information technology and related services.
- b) The Customs transaction volumes (Important and Exports) were doubling over the years while the staffing level remained static and minimal expenditure in information technology targeted at Customs, Customs was left in an untenable situation having to manage ever growing volumes with little capacity. Customs was utilising over 34 distinct systems to manage its business. Those systems were developed over a time as global trade was growing and evolving. The core system, CAPE, was commissioned in 1979 and was based on the first generation technology originally designed for batch data capture. The underlying conclusion was SARS Customs was not in a favourable position to deliver on

its multifaceted mandate and effectively manage its many risks while providing the level of services required then in a competitive economy. After considerable analysis of the environment at the time, a number of options to resolve the technology issues and challenges were considered. The options investigated were as follows:

Option 1- Develop a new in-house custom-built solution utilising similar technology to that used for Tax Modernisation,

Option 2 – Create a SARS owned Development Company that would acquire the TATIS customs management solution.

Option 3 – Select and deploy a commercially-available customs software package such as Bull.

The key considerations, high-level time-lines and financial implications were discussed in the National Treasury submission and after applying the risk-adjusted public sector comparator; option 2 solution benefits considerably outweighed the risks. The submission was duly noted and signed by the Finance Minister at the time.

SARS continues to make use of the IT services of its subsidiary to modernise its Customs systems and achieve compliance with specific reference to the new Customs Act.