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2014

Annual Report

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GENERAL INFORMATION

1 Corporate Information

International Frontier Technologies SOC Ltd

Registration Number: 2009/007987/30

Registered Office and Business Address

Gleneagles Building

Somerset Links Office Park

De Beers Avenue, Somerset West, 7130

This annual report follows the National Treasury guide dated April 2013, titled "Preparation of the Annual Report for Public Entities."

Postal Address

PostNet Suite # 10

Private Bag X15

Somerset West, 7129

Contact

Tel: 021 840 3400

Fax: 021 840 3401

Email: secretarial@interfront.co.za

Website address: www.interfront.co.za

Bankers: ABSA Limited

Company Secretary

L. L. Janse van Rensburg

Gleneagles Building, Somerset Links Office Park,

De Beers Avenue Somerset West, 7130

Accenture	Accenture (South Africa) (Pty) Ltd
ADA	Administration des Douanes et Accises
AGSA	Auditor-General South Africa
CEO	Chief Executive Officer
Companies Act	Companies Act, No. 71 of 2008
COTS	Commercially off the Shelf
EDI	Electronic Data Interchange
EDIFACT	Electronic Data Interchange for Administration, Commerce and Transport
EE	Employment Equity
ERT	Error Reporting Tool
EU	European Union
GRAP	Generally Recognised Accounting Practice
iCBS	Interfront Customs and Border Management Solutions
ICS	Import Control System
IETA	Import, Export and Transit Application
IP	Intellectual Property
IT	Information Technology
King III	King III Report on Corporate Governance, 2009
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, No. 1 of 1999
RFI	Request for Information
RFP	Request for Proposal
SA	South Africa
SARS	South African Revenue Service
SLA	Service Level Agreement
SMART	Specific, Measurable, Achievable, Relevant and Time-bound
SOA	Service-Orientated Architecture
UAE	United Arab Emirates
WCO	World Customs Organization
XML	Extensive Mark-Up Language

3.1 Vision

The best partner in border solutions

3.2 Mission

We deliver smart solutions, creating better borders

3.3 Values

TECHI How we work

T	TRUST	Trustworthy – being honest and reliable Respect – treat others, as you would like to be treated
E	EXCELLENCE	Striving for the best in our organisation and in our product through constant innovation and pride in our product and service delivery
C	CAMARADERIE	Passionate teamwork; walking the extra mile; commitment to the team and organisation; fun
H	HUMILITY	Servant leadership – transparency; communication; supportive – acting in the best interest of those you are leading in a humble way; supporting each other's efforts; empowerment; treating other people in a fair and consistent way; collaboration
I	INTEGRITY	Consistently acting in an honest, respectful and trustworthy manner; Say what you do and do what you say

4 Interfront Product - iCBS

The iCBS is a product led modular customs and border-management product suite, rather than a single package monolithic commercially off the shelf (COTS) product. A number of individual modules support customs procedures such as arrival and departure processing (cargo), declaration processing (goods) and customs warehousing, as well as various other functions such as risk assessment, inspection, tariff management as well as license and certificate management. **Clients may select specific iCBS modules that are then customised to their respective needs.**

The iCBS is **platform independent** and SOA based, thus allowing integration with major accounting packages to provide a seamless link to the customer's revenue, debtors and all its financial accounting systems.

In addition, the solution can be readily interfaced with external legacy systems providing a single-window operation with the respective trade, migration and enforcement structures. The implementation of the iCBS modules is scalable to the size and complexities of any customs operation.

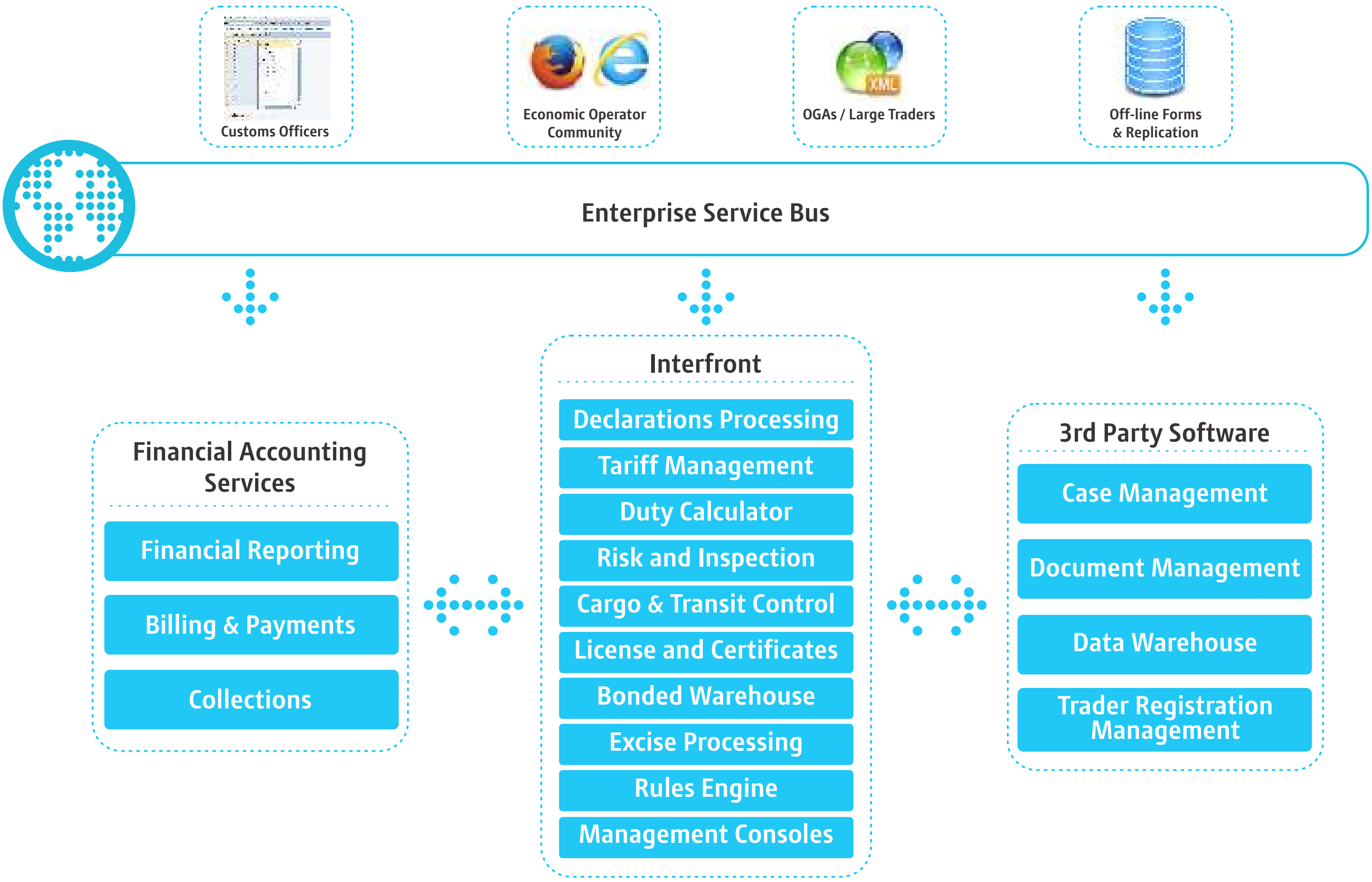
Modernisation programmes are complex, typically implemented in a staged approach and take place over a number of years. Once agreement has been reached to go ahead, Interfront will partner with the respective client and provide value-added services to customise the modules required and facilitate the integration of iCBS with externally supplied systems, such as the accounting modules, in order to deliver the full scope of the intended solution. To this end, we work closely with various service providers in order to satisfy clients' personal specifications.

Interfront has an advanced and mature software development capability that extends to second generation IP, going beyond the national domain that now also addresses multi-lateral solutions.

In a world where tariff, customs and security requirements are constantly developing against a backdrop of exploding technological capability, Interfront provides future-proof solutions and is determined to be a stable long-term partner. Our shareholder and status as a state-owned company underwrite this commitment.

The strength of the IT solution lies to a significant extent in the unseen technologies that underpin the solution functionality, as well as its user efficiencies. This allows for continuous improvement and requires a certain level of investment that is amply reimbursed, through long-term licence and support income.

Ultimately, our product must deliver on the fundamental demands of frontier operations. These are for **uninterrupted 24/7/365 operation and long-term flexibility,** as well as **ease of integration across agencies.** In so doing, iCBS can serve as a key building block for upholding the national security of sovereign nations.



4.1 Tariff Management System and Duty Calculator

Implements and **manages the WCO Harmonized Tariff system from inception to decommissioning.** The tariff management console supports business agility through rapid business process promotion. T**he time duration for promulgation to publication of amendments to tariffs and duties can be completed in minutes.**

The Tariff Management System supports the customs administration by managing risks associated with prohibited and restricted goods (e.g. illicit trade), as well as offers the capability of maintaining trade agreement provisions. This system also facilitates the management of the required documentation and thus the movement towards a single-window system.

The duty calculator ensures accurate and consistent duty calculations across the business and offers the customs organisation the flexibility to configure duty calculation formulae that is fully customisable.

4.2 Cargo and Goods Declaration Processing

Supports the core business processes of the customs administration of movement that includes the validation of documents or reported events associated with import, export, arrival and departure cargo processes. Traders and customs administrators are able to submit declarations online via the web and EDI (EDIFACT or XML), and receive instant feedback.

The Interfront Declaration Processing module **replaces paper and manual controls with tactical system-based controls.** This facilitates increased trade through harnessing the existing human intellectual capital to the customs operation.

A **powerful business rules engine** employed in the Declaration Processing module supports the unique legislative obligations of the customs administration. This ensures consistent implementation of the obligations of the customs administration.

4.3 Licence and Certificate Management

The Interfront Licence and Certificate Management module offers **a centralised, multi-agency capability for the management and issuing of electronic permits and certificates.** This module facilitates uninterrupted trade through real-time introduction of new permits and certificates.

Permit quotas and certificate lifecycles are managed from inception to decommissioning with a high degree of automation. The integrated nature of this module supports a movement towards a single-window customs administration and allows multiple submission channels for other government agencies and customs administrations, through web and EDI (EDIFACT and XML).

4.4 Inspection and Audit Management

The Interfront Inspection and Audit Management module **manages the flow and execution of control tasks related to the movement of goods through integrated workflow and case management.** This module supports both intrusive and non-intrusive inspection types, ranging from documentary to physical inspections.

The system manages risks in the customs operations through workflow implementations that prevent selective assignment (cherry picking) of inspection cases by customs officers. The implementation of the module is scalable to the size and complexities of any customs operation.

This module supports **integration with mobile devices for inspection workflow and data capturing.**

4.5 Risk Management

The Interfront Risk Management module assesses the risk of non-compliance with customs laws and regulations on goods and cargo declaration transactions. This module **offers centralised rules-based risk analysis.** This culminates in a module that **houses self-learning and configurable risk rules** based on the probability and impact of fiscal, safety and security threats. The capability of this module is extended through the measurement of the compliance of traders with Authorised Economic Operators programmes.

Third party and statistical risk analyses are implemented through the integration capability to third party risk engines (WCO and Interpol) and the identification of trade patterns through a series of algorithms.

4.6 Operations Management

The iCBS includes a product suite consisting of three modules known as the Systems Management Console, Systems Configuration Console and the Declaration Support Console. Each module is engineered to empower and meet the requirements of a complex and modern customs administration.

The **Systems Management Console** module reports on and allows for the remedy of unforeseen technology related environmental issues. The module allows **real-time configuration of specific system health performance settings, without the need for development or interruption of systems processing.**

The Systems Configuration Console module allows for the convergence of customs systems reference data into a single platform that **ensures the referential integrity of the data.**

The **Declaration Support Console empowers the change management capability** of a customs administration. Authorised customs users are allowed, in a controlled environment, to effect changes to declarations during phases of business process transitions. This means that there will be **no missing customs declarations and no interruptions to trade.**

Interfront / SARS Case Study

The iCBS was delivered to SARS in August 2013 and replaced 30 distributed and paper based systems. Some of the immediate benefits realised in terms of trade facilitation and the optimum total cost of ownership were:

- robust and uninterrupted 24/7/365 customs service;
- real-time declaration processing;
- number of days to import goods are halved;
- major reduction in paper usage;
- increase in revenue tracking and collection; and
- creating efficient borders.

"Congratulations to your team. Without a doubt one of the smoothest major changes I've seen in my time"

From: Major Courier Company

"We've passed in excess of 200 declarations in a single batch on Sunday morning and it went through like soap. So far, it has been an excellent implementation and there is really nothing we can complain about."

From: High Volume Clearing Agent

The value delivered to SARS as a stakeholder is derived from Interfront's dedication and understanding of customs.

What makes us different is:

- we understand the complexities of large scale implementation such as this project due to our company having the necessary experience;
- we have the knowledge about management information requirements and all the peripheral requirements around the core system;
- we understand the balance between security and speed;
- we understand that it is more than just a system solution. It is people, processes, systems, data and analytics working powerfully together that gives the best result; and
- we want to create seamless and efficient borders globally, by delivering smart solutions.

5 Strategic Objectives

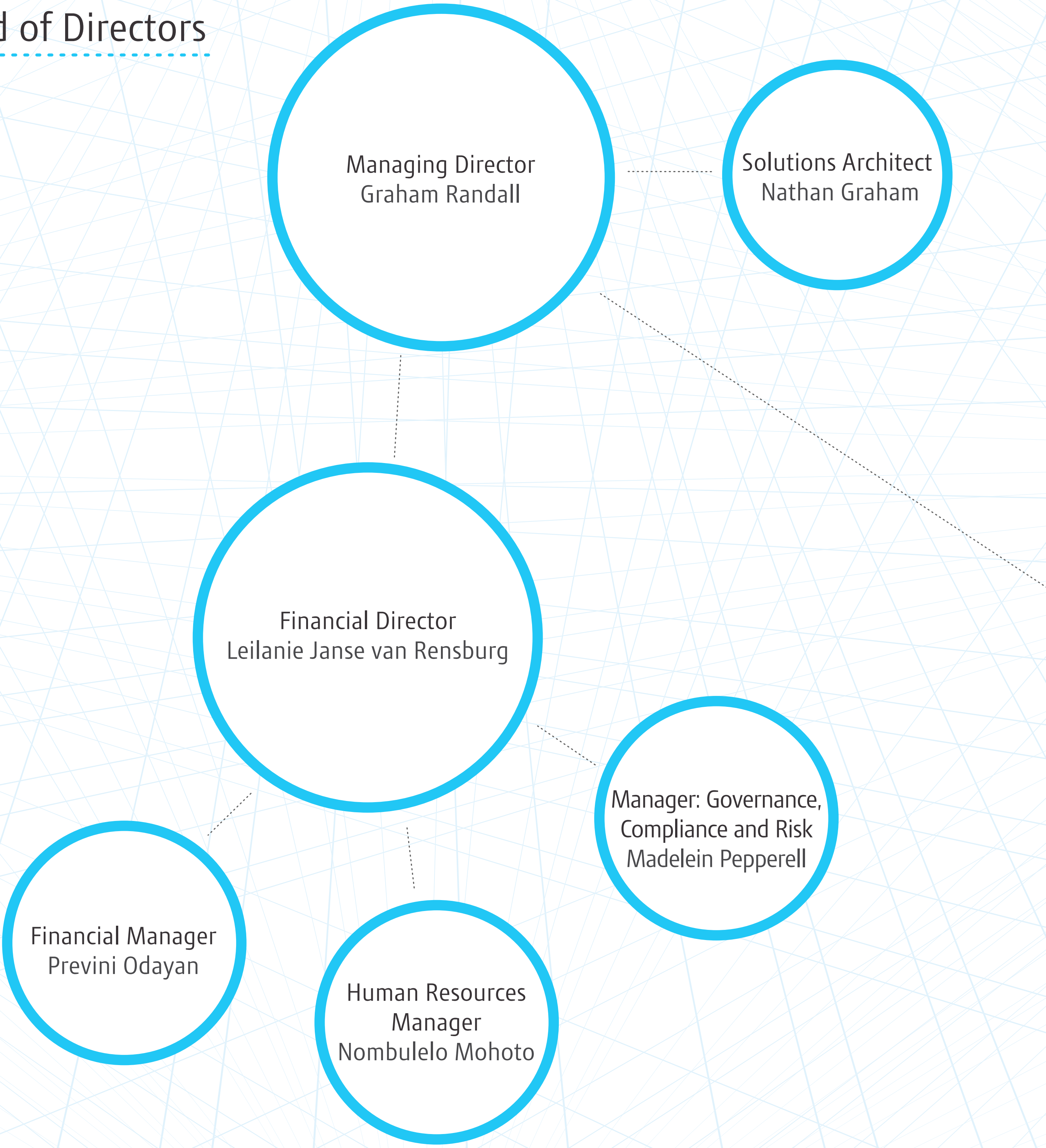
- Develop and support a customs and border management solution for SARS;
- Develop and support solutions for other customers;
- Establish a broader customer base;
- Build a sustainable, financially self-sufficient organisation.

6 Mandates

Interfront is a wholly owned subsidiary of SARS through which its parliamentary accountability is exercised, it is classified as a public entity as defined in Schedule 3A of the PFMA.

Interfront is regulated as a state-owned company by the PFMA, the Companies Act and Treasury Regulations.

Board of Directors




Operation Services Manager Lizette Retief
Release Manager Dominic Hurst
Support & Integration Manager Vacant
System Engineering Manager Andre Joubert
Operations Director John Robertson
Project Manager Mark Beckerling
Development Manager Francois Smit
Data Manager Jason Bain
Test Manager Vacant

FOREWORD BY THE CHAIRPERSON

The Board seeks to embed integrated thinking to act as a force for financial stability and sustainability. This report provides some insight into how Interfront interacts with the external environment and the various forms of capital to create value over the short, medium and long-term. The inherent nature of the iCBS is ultimately to create value for society, through its contribution to facilitating goods and person movement, security and revenue collection of customs agencies.

Interfront has firmly established itself as a sound and reliable software development house which builds robust solutions and is positioned in the market for the long-term. Following on the delivery of the core iCBS system to SARS in August 2013, further development is taking place within the customs suite. A high level of interest has developed and Interfront is engaging with leading system integrators and international suppliers of complementary systems, with a view to forging strong business relationships in the future.

The company is making excellent progress. This report narrates its achievements and sometimes its challenges. It is intended to support integrated thinking and enhance the process of accountability and stewardship.

The Board has actively exercised a leading role as the accounting authority, not only through Board meetings, but also through its various organs, interim resolutions and regular interaction through a designated Board member, who acts also as the shareholder's representative.

It is my pleasure to note that the Board has approved this report.

Mustaq Enus-Brey
Interfront SOC Ltd

CHIEF EXECUTIVE OFFICER'S OVERVIEW

Our annual report is intended to inform our stakeholders, notably our shareholder, employees, customers and business partners about our strategy, governance, performance and prospects.

Interfront is a robust and long-term supplier of back-end customs solutions through its iCBS to global customs authorities. Our value proposition is to be found in our hands-on experience of the industry and customer-partnership model in an economical modular process. Ultimately, the outcome of efficient borders means easier and quicker goods and people movement, improved security, as well as wealth creation internationally.

The achievement of our strategic objectives is a function of the interdependencies between the capital employed, the capacity of our business model and our activities, both financial and other. At Interfront, we strive to preserve and expand our **intellectual**, **human and social and relationship capital.** Briefly, these equate to the following aspects of our business:

Intellectual capital

» Our intellectual property housed in the iCBS

» Our organisational capital embodied in the systems and protocols we apply as a software development house

Human capital

» To entrench alignment and support for our governance framework, values and strategy

» Building our peoples competencies and loyalties, including their ability to lead and collaborate

Social and relationship capital

» Engaging with stakeholders who share our norms, values and behaviours

» Cementing key relationships with our partners and global customs' authorities

» Further establishing our brand

Our strategic objective and activities for the year under review set out our responses to these aspects. Our achievements and our shortcomings are set out in detail in the pages that follow. By all accounts, this has been the most successful year in our brief history. Some of the milestones on this journey have included:

» Interfront has proven its product functionality with the iCBS delivery to SARS, which has aroused widespread interest from suppliers and customs agencies alike

» Stakeholder bonds have been forged and strengthened, notably with major international suppliers who wish to include a customs module in their solution suite

» We have researched the market, learned what the customer requires and planned the refinement of our product suite

» We have invested in our people

» We have built an ethical, financially sound and sustainable state-owned company

Moving forward in the medium-term, Interfront intends to expand its customer base in the international customs arena, systematically. As a supplier, we are in the industry for the long-term. The nature of our service is to maintain and support our clients as international standards develop, new alliances are forged, domestic regulation at each site inevitably changes and technologies advance.

I would like to express my gratitude to our shareholder, the Board, staff and all our stakeholders. I believe that with the benefit of hindsight, we would all choose to embark on the same road, if we had the opportunity again.

Graham Randall
Interfront SOC Ltd

PERFORMANCE REPORT

PART B

- Statement of Responsibility for Performance Information
- Auditors Report: Predetermined Objectives
- Overview of Performance
- Performance Information
- Summary of Financial Information

PERFORMANCE REPORT

1 Statement of Responsibility for Performance Information

The CEO is responsible for the preparation of Interfront's performance information and for the judgements made in this information.

The CEO is furthermore, responsible for establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In my opinion, the performance information fairly reflects the actual achievements against the planned objectives, indicators and targets as per the strategic and annual business plan of Interfront, for the financial year ended 31 March 2014.

The external auditors have examined Interfront's performance information for the year ended 31 March 2014 and their report is presented in Part E: Financial Information.

The Board has approved the performance information set out in Part B: Performance Report.

Graham Randall
Interfront SOC Ltd

2 Auditors Report: Predetermined Objectives

The AGSA currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management and is unqualified. There are no material findings to be reported under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to the Report of the Auditors included in Part E: Financial Information.

3 Overview of Performance

3.1 Service Delivery Environment

Interfront, together with its customs IP was purchased by SARS in 2010, to ensure delivery of its core customs system, in a fragile commercial environment.

At this juncture, Interfront had already successfully installed core components in ADA, Luxembourg and has continued developing the iCBS with the backing of its sole shareholder.

The company operates in the global customs arena and potential customers are comprised largely of the national customs agencies in each country. The replacement of a national customs system is typically a significant operational change, which would take place infrequently. Each agency has its own unique needs and requirements. Interfront's approach to the market is therefore to invest in core back-end modular components and to collaborate with the agency concerned. This will ensure that modules are customised and implemented through a modernisation programme on an affordable and systematic basis.

The solution is fully compatible with major accounting/business packages and is platform agnostic. Interfront therefore focuses on the core customs software and partners with other suppliers who provide integration, change management and software applications, therefore providing the complete solution.

In this service delivery environment, Interfront has invested in establishing its brand, developing and delivering proven modules to serve as its core product offering and establishing a sound and ethical business model, therefore generating a stable, unaggressive return.

The major focus for the past three years has therefore been on the further design, development and delivery to SARS of the core components of its customs modernisation programme, replacing more than 30 legacy systems. Following the seamless "go-live" of the system in August 2013, a support capability has been commissioned, whilst automated cargo management and other ancillary functionalities are being developed. This is expected to occupy fully the core business operations for several years to come.

With the successful delivery of iCBS into the SARS operational environment, Interfront has established itself as a recognised, high-value delivery engine in terms of both system and software engineering. The skills, processes and disciplines now present in Interfront are critical for large-scale development projects and constitutes a major asset for Interfront, SARS and the country.

Interfront has continued to fulfil its obligations to ADA in accordance with a maintenance agreement on the customs systems supplied to ADA since 2007.

Interfront has continued to market the iCBS product and associated services via one of its resellers, Accenture. Various opportunities are being pursued and the market is perceived as receptive to the modular and robust iCBS product offering. Strategic positioning of resources is in progress to provide for a rapid increase in capacity in response to new orders.

There has been a strong focus placed on establishing a sound corporate environment. This has included the full spectrum of developing a company ethos, together with underlying systems and capabilities. Whilst this is an ongoing process, the company is well established and has clean operations, as testified by its external reviews. This is especially important to prospective customers and partners who expect to do business with an ethical supplier that is assured of being in business for the long-term.

3.2 Organisational Environment

The Interfront commercial model is based on the provision of IT development and support at a reasonable but not excessive mark-up.

Organisationally, the majority of resources are engaged in the operations with a small support complement.

One of Interfront's key strategic objectives is the expansion of its business footprint beyond the current customer base. To this end, Interfront has concentrated its efforts in the area of organisational development to create structure and process, in order to scale the organisation when having to commit to new work. This will allow Interfront to deliver on multiple programmes concurrently and still be able to honour its current system support responsibilities to its existing customer community.

Interfront, being a knowledge company, is dependent on highly skilled and experienced individuals and teams. A well-known shortage of some of these skills in the market has the potential to restrict expansion of the team, or the replacement of key skills, to meet market demands. Interfront mitigates against this risk by providing a dynamic work environment where its workforce remains challenged and engaged. This is also attractive to newcomers. There has been considerable effort employed to develop staff at managerial and technical levels and in the process, increasing staff retention.

Staff numbers are carefully managed to align with business activity. After peaking at some 100 employees in early 2011, staff numbers declined to about 75 by August 2013, as the development cycle tapered off. Total staff had increased again to 83 by year-end, as we established the core staff for new orders.

The staff complement has been stable during the year under review with regard to attrition and there have been no changes to the board members or the executive directors.

Interfront applies strict controls and employs a highly ethical, professional staff. No known instances of fraud or corruption have taken place and there have been no significant labour disputes.

3.3 Key Policy Developments and Legislative Changes

No significant changes have taken place during the year with regard to legislation or policies that affect Interfront in its corporate environment.

Operationally, through the IT services Interfront provides to its customers, changes in customs legislation in the user's domain or changes in tariffs, regulations or procedures imposed by the agencies concerned, may lead to new work orders for software changes or updates.

Significant changes to South African customs legislation that were promulgated in 2013 will affect declaration processing and cargo systems developed by Interfront and will require changes and updates to these systems in the new financial year.

3.4 Strategic Objective Oriented Goals

Interfront as a wholly owned subsidiary, contributes to the strategic outcomes of SARS. This is consolidated in the Schedule of Performance Information in the SARS Annual Report and supports the Increased Customs Compliance strategic outcome. With the successful delivery of the core system during the year under review, as well as an unqualified external audit report, Interfront can report that its strategic goals have been achieved at the consolidated level.

Performance planning and monitoring is cascaded to company level and more detailed reporting takes place to the Interfront Board in terms of the approved strategic and business plan. Four strategic objectives were identified for the year under review and are reported on hereafter.

It is pleasing to note that the predetermined targets were substantially achieved, except for instances where the dynamic nature of client needs, caused a change in deliverables.

4 Performance Information

Strategic Objective 1: Develop and Support a Customs and Border Management Solution for SARS

The raison d'être for the establishment of Interfront set out in Strategic Objective 1 was to secure the development and support of the customs solution for SARS. This was clearly distinguished from the parallel Strategic Objective 2, which is aimed at other customers. The year under review has seen the achievement of a major milestone in this process.

As Interfront moves into a more mature phase and a strong IP base has been established, the focus has moved to combining these into one overall strategic objective in the new year with the objective, **to provide support and software solutions to all clients.**

The performance results against the measure and targets for the current year are set out below.

Develop and Support a Customs and Border Management Solution for SARS				
Performance Indicator	Measure	Target 2013 / 2014	Achieved 2013 / 2014	Comments
Build functional components for the SARS Modernisation Programme	Deliverables as specified in work orders: - Meet requirements; - On time; -Within Budget	>90% of deliverables completed as specified in work orders	Achieved	93%
Build non-functional components (to improve the performance, reliability and operational support of the iCBS system)	Deliverables as specified in work orders: -Meet requirements; - On time; -Within Budget	>90% of deliverables completed as specified per work order.	Achieved	93%
Participate in Systems Integration management for SARS projects	Attendance register for system integration meeting with SARS	90% attendance as per attendance register	Achieved	95%
Provide Client Support for iCBS system	Support Capability Plan (SCP) Meet response and resolution targets as percentage of incidents – 90%	Internal signoff Not measured as agreed with SARS	Achieved Not applicable for 2013/2014	During the transition period from September 2013 to March 2014 a conscious decision between Interfront and SARS was made to focus on training and maintaining production availability to SARS instead of administering and monitoring strict adherence to the agreed SLA. Adherence to the SLA and measurement thereof commenced in April 2014
Expand footprint in the SARS Modernisation Process	Number of new work orders for work outside the scope of the current iCBS	2 Work orders	Achieved	3 Work orders approved for the year
iCBS "go – live:" Cut over from Legacy to Interfront with minimal impact	Number of error types reported by ERT per day for 18 days after "go-live"	<100	Achieved	

Interfront participated actively in **systems integration management** throughout the year to align with SARS modernisation requirements and timeframes. Activity directed at **building functional and non-functional components** tapered off during the transition period to iCBS "go-live".

The successful **iCBS "go-live"** was the major achievement during the year. Interfront started developing the iCBS system according to SARS requirements in 2009. After more than three years of development, including extensive parallel testing with legacy systems over the last year, the iCBS system went live on 17 August 2013, achieving a transition from the legacy system to the new system that was described by trade representatives as exceptionally smooth and trouble-free. Customs operations proceeded normally on the new system without any major interruptions to date. Ongoing changes required to the system are agreed on in a team together with SARS and solutions are deployed on a regular basis.

After the iCBS "go-live" in August 2013, the system entered a transition phase where certain operational issues had to be managed and resolved on a daily basis. This phase continued until December 2013.

Subsequent to this phase – from January to March 2014 – Interfront prepared and assisted SARS in preparing for operational support on the system, which included training various SARS components on first and second line support aspects (technical and business) and introducing several support tools and processes. An effective **support capability** was established and people, processes and tools aligned to meet the agreed service levels. Having completed the transition phase, it was agreed that measuring and monitoring against the SLA could be instituted from 1 April 2014. Interfront has procured a tool to measure performance against the SLA and has issued the first monthly report.

Interfront seeks to maintain and **expand its footprint in the SARS modernisation process** with ongoing work and was subsequently contracted by SARS to modernise another legacy system, the cargo processing system. This work will form the backbone of the development programme in 2014/15.

Strategic Objective 2: Develop and Support Solutions for Other Customers

Interfront has a long-standing relationship with ADA Luxembourg, which serves as its European reference site. This site together with the South African solution forms the core of the software that is available to the market. This strategic objective focuses on servicing the customer and will be included in a single client service objective in the coming year.

Develop and Support Solutions for Other Customers

Performance Indicator	Measure	Target 2013 / 2014	Achieved 2013 / 2014	Comments
Provide scheduled maintenance releases and patches to ADA	Delivery of releases and patches on schedule	Delivery of releases and patches on schedule as agreed with ADA	Achieved	ICS went live in ADA after EU compliance testing. IETA release provided as agreed with ADA
Maintain client relationship	Satisfaction rating system	3 expected standard	Achieved	
Promote value-add innovations in our service to ADA	Present value-add innovation to ADA	3 presentations	Achieved	Test packs shared during site visit and migration tested, finalised and working. Created a method of consuming ADA test data into test environment for easy root cause analysis on ADA data in Interfront's environment. The simplification of the security and permission structures in the Active Directory set-up of ICS.

The Import Control system was qualified to EU specifications and was delivered to ADA in the year. The system has since been in live operation and is fully functional, without any major problems or interruptions. This was a significant delivery of a major customs system into an EU country and is an achievement in its own right.

Interfront also continues to successfully maintain, and align to changes in EU regulations. This import and export system has been in operation since 2007 and is committed to exceeding the service levels specified. ADA is a key stakeholder in this strategy and it is expected that this relationship will continue in the foreseeable future.

Strategic Objective 3: Establish a Broader Customer Base

Establish a Broader Customer Base				
Performance Indicator	Measure	Target 2013 / 2014	Achieved 2013 / 2014	Comments
Review marketing and sales strategy	Annual review and update	1 review	Achieved	
Pro-active engagement with resellers	Quarterly engagement	4 engagements	Achieved	Formal workshop with Accenture and interacted with Tatis on product related matters.
Review Product Strategy	Annual review and update	1 review	Achieved	
Execute Market Development	Responses to approved RFI's and RFP's received	2 responses	Achieved	

Over the course of 2013/2014 Interfront matured its marketing and sales capability, in support of the overarching goals of the company.

The marketing strategy remained directed at positioning the Interfront brand as a key solutions provider in the customs and border management sphere and solidifying the relationships with our value-added resellers, Accenture and Tatis, who enjoy preferential rights to market the iCBS globally. Our effort in pursuing our strategy saw the launch of a mobile friendly and more informative Interfront website. Moreover, major steps were taken in improving the quality of Interfront marketing and demonstration material.

On the back of a successful launch of the brand in 2012, Interfront attended the World Customs Organization IT conference in Dubai, UAE in May 2013. The event presented valuable exposure to potential clients and insight into the global competitor landscape. Furthermore, it encouraged proactive engagement with the reseller Accenture through a joint marketing effort.

The successful launch of the SARS customs system has spawned significant interest from several customs agencies and has led to establishing strategic global partnerships with reputable product vendors.

Interfront is in the process of engaging intensively with its partners on prospective sales opportunities. In order to prepare for promising market opportunities, initial steps have been taken to provide for the required ramp-up in both staff numbers and other resources. This will allow Interfront to deliver new implementations, whilst still allowing for providing support to our existing clients.

Strategic Objective 4: Build a Sustainable, Financially Self-Sufficient Organisation

The essence of the strategic objective, to build a sustainable, financially self-sufficient organisation, is to mould the internal and external environments within which the value creation process takes place. This contributes to building, maintaining our intellectual, human, financial as well as social and relationship capitals and is underpinned by the governance structure.

At a high level, our shareholder, SARS, sets the overall parameters through its representation on the Board. Interfront maintains an independent administration, but aligns with SARS policies, to the extent that this is realistic, bearing in mind its size and commercial orientation.

The performance against the annual targets below is a snapshot in the process. Detailed reporting on human capital, finance and governance for the year under review is set out elsewhere in this report.

Build a Financially Sustainable, Self-Sufficient Organisation				
Performance Indicator	Measure	Target 2013 / 2014	Achieved 2013 / 2014	Comments
Maintain and develop a skilled, diverse and engaged workforce	% staff turnover	<22%	Achieved	13.9% Staff turnover
	Tracking the budget for training and development	>80% tracking	Partly Achieved	Spent approximately 60% of the budget. SARS "go-live" prevented any significant training from starting before Oct/Nov 2013
	Individual performance evaluation and reward system	Evaluation of the system, recommendations for improvement agreed and implemented	Achieved	Minor improvements to the system were adopted and implemented. This is an ongoing process.
	Employee engagement / climate survey results	Implement and baseline. Set target for % improvement	Not applicable	Due to the proposed changes to the Conditions of Service and Leave Policy this has been postponed to September 2014
	EE Plan	Develop Targets	Partly Achieved	Overall targets were developed for the next 5 years as per the EE plan. Increased focus will be placed on detail in the coming year.
Establish, improve and maintain software development lifecycle (SDLC) processes	Process framework elaborated to enable/inform project resources (typically comparable to CMMI level 3) (Capability Maturity Module Integration)	Process framework maturity measurement mechanism	Achieved	Processes embedded in Jira workflows inform day-to-day project and support work. Measurement mechanisms created compare with level three of CMMI framework
Manage income and expenses to achieve financial goals	Budgeted surplus	Achieved at least 90% of budgeted surplus	Achieved	91%
Establish and support effective governance	Unqualified audit report	Unqualified audit report	Achieved	

Overall, performance has been pleasing. Staff are exposed to a wide variety of disciplines and growth opportunities due to the small/mid-size of the company, as well as the opportunity to engage in new work. Exit interviews have been encouraging and **staff turnover** has been reduced. Formal training through the **training budget** was intensive, but showed a saving on budget due to timing. The **performance evaluation system** continues to be refined.

Practical steps have been put in place to build staff perceptions, although the timing for the clinical survey was not opportune. Interfront continues to be credited by staff for its teamwork.

Diversity and staff recruitment from previously disadvantaged communities is a challenge. Investment is being made to identify and grow staff from school level, although this takes an extended period before candidates become ripe for senior positions.

The **operational, financial** and **governance** measures were all achieved and are reported on under the respective categories.

Overall, Interfront has achieved many successes in this area but will need to maintain its focus into the future.

5 Summary of Financial Information

The financial information is set out in detail in the annual financial statements and augmented in the Financial Director's report.

Revenue is generated mainly through the labour charges for services rendered. **Revenue collection** from our two major clients has been stable and there is no provision for doubtful debt.

Revenue declined marginally during the year mainly as a result of the **focus on the SARS delivery** and is expected to normalise as further development projects are initiated. New sales are not budgeted, but treated on an individual basis due to their infrequency and magnitude.

Revenue is determined by a conservative mark-up on the cost of labour. **Programme expenditure** is managed through the operational efficiency and careful management of overhead costs within the agreed margin. A stable net surplus has been generated which is consistent with the financial model and budget, approved by the Board.

The only major **capital investment** in Interfront has been in the value of the intellectual property initially invested of some R 70 million. The **maintenance and asset management plan** for this asset is synonymous with the strategic objectives and has been carried out through the development and refinement of the IP. After delivery to SARS in August 2013, this will be amortised over a period of 10 years in terms of GRAP.

Interfront does not own fixed property and the remaining assets comprise mainly computer hardware, as well as furniture and fittings. These are systematically depreciated and replaced according to their expected useful lives.

Financial performance has been stable and Interfront is generating a sound return on the initial investment. Future financial performance will be determined by the extent to which the status quo is maintained, or sales of the iCBS are achieved worldwide.

GOVERNANCE

PART C

GOVERNANCE

1 Introduction

Corporate governance embodies the processes and systems by which Interfront is directed, controlled and held to account. In addition to legislative requirements based on enabling legislation and the Companies Act, corporate governance is applied through the precepts of the PFMA and the principles contained in King III.

Parliament, the Executive and the Accounting Authority are responsible for corporate governance.

2 Portfolio Committees

Interfront is a wholly owned subsidiary of SARS. It is consolidated inter alia, in the SARS strategic outcomes and the Consolidated Financial Statements: Own Accounts. Accordingly, it is included as an integral part of the Parliamentary accountability processes of SARS.

3 Executive Authority

Oversight by the Executive Authority rests largely on the prescripts of the PFMA. The PFMA gives authority to the Executive Authority for oversight powers.

The Minister of Finance appointed the Interfront Board at incorporation. Subsequent renewals and replacements of Board members have been approved by the Commissioner of SARS in the capacity of shareholder, in terms of section 68 (1) of the Companies Act and Interfront's Memorandum of Incorporation, through the medium of the Annual General Meeting.

4 The Board of Directors

Interfront's business operation functions independently through its own Board of Directors and strives to be a fully sustainable and eco-friendly body. Interfront aligns its policies, governance and approach to risk closely to that of its shareholder and enjoys comprehensive support in this regard.

The Board of Directors support strong corporate governance and actively engage with executive management to ensure Interfront achieves its objectives, conducts its business in an ethical manner and acts in compliance with laws and regulations. The Board of Directors as the accounting authority, is responsible to the shareholder for the oversight and implementation of sound corporate governance, in the conduct of the business.

The Board's terms of reference set out the role and purpose of the Board of Directors, which include but are not restricted to:

- ensure that there are effective, efficient and transparent systems of financial and risk management, as well as internal control;
- identify and monitor key risks to ensure that an effective system of internal control is in place to manage risk within acceptable parameters;
- ensure that Interfront has a system of internal audit under the control and direction of an Audit Committee complying with and operating in accordance with Treasury Regulations and the PFMA;
- ensure that there is an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;
- ensure a system of properly evaluating all major capital projects prior to a final decision on the project;
- take effective and appropriate steps to prevent irregular, fruitless and wasteful expenditure ;
- ensure that available working capital is managed efficiently and economically;
- ensure the integrity of Interfront's integrated reporting; and
- manage and safeguard Interfront's assets and the management of the revenue, expenditure and liabilities of Interfront.

4.1 Powers of the Board of Directors

Memorandum of Incorporation

The general powers of the directors are set out in the Memorandum of Incorporation. The directors further have unspecified powers and authorities in respect of matters that may be exercised or dealt with by the company, that are not expressly reserved for the shareholder.

Matters Reserved for the Board

There are certain matters that are dealt with exclusively by the Board of Directors, which include but are not limited to the authorisation of the annual financial statements, on the recommendation of the Audit Committee; the governance of risk; approval of certain contracts and approval of the annual budget.

Delegation of Authority

The ultimate responsibility for Interfront's operations rests with the Board of Directors. The Board of Directors retains effective control through a well-developed governance structure of Board committees that specialise in particular areas of the business. The necessary authorities have been delegated to the executive directors to manage the day-to-day business affairs. The delegation of authority is reviewed periodically to ensure it remains aligned and relevant in relation to the growth of Interfront.

4.2 Board Members

Interfront has a Board of eight directors. The Chairperson is an independent, non-executive director and is remunerated in terms of a directive issued by the Minister of Finance. The managing, operations and financial directors are executive appointments and are full-time employees of Interfront. The remaining four directors are non-executive and employed by the shareholder in top management positions, all directors are South African citizens, with one exception.

The directors have no alternate members, no new appointments have been made and no resignations have been received for the year under review.

Mustaq Enus-Brey

Non-Executive, Independent Chairperson of the Board, Member of the Remuneration, Social and Ethics Committee

Mustaq is a founder member and currently the CEO of Brimstone Investment Corporation Ltd. A qualified Chartered Accountant, Mustaq serves as the Chairperson of the Oceana Group Ltd and Life Healthcare Group Ltd and on the boards of Nedbank Ltd, AON Re SA (Pty) Ltd, the Scientific Group, Lion of Africa Insurance Company Ltd and House of Monatic (Pty) Ltd.

(Age 60)

Barry Hore

Non-Executive Director

Barry graduated with a BCom from the University of Natal and in 1995 completed the Advanced Management programme at Harvard. He has extensive IT and banking credentials. He joined SARS in 2006 as the General Manager for Strategy, Modernisation and Technology, where he was responsible for the delivery of the Modernisation Programme. In 2010, Barry was appointed Chief Operations Officer and his portfolio includes modernisation, technology and a significant part of the operations of SARS.

(Age 53)

Bob Head

Non-Executive Director, Chairperson of the Finance Committee

Bob is a Chartered Accountant with extensive international exposure at board level to multinational listed companies. He was appointed as the Special Adviser to the Commissioner of SARS in 2012 and currently holds the position of acting Chief Financial Officer of SARS.

(Age 55)

Kosie Louw

Non-Executive Director, Chairperson of the Remuneration, Social and Ethics Committee

Kosie is the Chief Officer: Legal and Policy overseeing research and policy development, interpretation and rulings, dispute resolution, product oversight, regional legal delivery services and the Corporate Legal Division in SARS. He is the holder of a Bachelor degree of Commerce and B.Proc.

(Age 61)

Gene Ravele

Non-Executive Director, Member of the Remuneration, Social and Ethics Committee

Gene is a former student leader and lawyer by training. He has wide experience in SARS at corporate level in various business areas, which include Operations, Transformation, Anti-Corruption, National Special Investigations, Enforcement, Government Relations and Customs and is currently the Chief Officer: Border Management.

(Age 43)

Graham Randall

Chief Executive Officer - Member of the Finance Committee

Graham is a Chartered Accountant and spent much of his career at the Auditor-General, South Africa. He holds an M Com in public finance and auditing and has at various times been responsible for the audit of inter alia the finance portfolio in government and the international audit portfolio.

(Age 62)

John Robertson

Executive Director – Operations

John started his career in the computer industry in 1983 with ICL supporting mainframe systems in the commercial sector. In 2002, he founded SincroWave with former colleagues, a technology independent company with its focus on systems integration services. SincroWave merged through a BEE initiative, to form Tsohle Business Solutions. Through continuous exposure to major IT developments, he has built his reputation nationally as a leading project manager.

(Age 54)

Leilanie Janse van Rensburg

Executive Director – Finance / Company Secretary, Member of the Finance Committee

Leilanie qualified as a Chartered Accountant in 2008 and has private and public sector experience in accounting and auditing. She has managed various audits including SARS and the Land Bank and gained valuable experience in the public sector.

(Age 32)

4.3 Board and Committee Meeting Attendance

Name	Date Appointed	Board		Remuneration, Social and Ethics Committee		Finance Committee		Audit Committee
		No. attended	No. of Meetings	No. attended	No. of Meetings	No. attended	No. of Meetings	
Mustaq Enus-Brey	18 Oct 2011	4	4	3	3	n/a	n/a	See Audit Committee Report
Barry Hore	22 Dec 2009	4	4	n/a	n/a	n/a	n/a	
Bob Head	4 April 2012	4	4	3*	3	2	2	
Kosie Louw	22 Dec 2009	4	4	3	3	n/a	n/a	
Gene Ravele	22 Dec 2009	0	4	1	3	n/a	n/a	
Graham Randall	1 June 2011	4	4	3*	3	2	2	
John Robertson	1 Sept 2011	4	4	2*	3	n/a	n/a	
Leilanie Janse van Rensburg	1 Oct 2011	4	4	3*	3	2	2	
Mike Olivier		n/a	n/a	3*	3	n/a	n/a	

n/a not a member or permanent invitee of the Committee * attended the meeting as a permanent invitee
O joined the Committee as a permanent invitee after the first meeting for the year under review

4.4 Remuneration of Board Members

The Board, which includes a majority of the shareholder representatives, determines the remuneration of the executive directors. In doing so, the Board considers the following factors:

- the remuneration being market orientated;
- performance bonuses linked to company and individual performance; and
- public attitudes.

No fees or retainers are payable to the non-executive directors who are in the employment of the shareholder.

The Remuneration, Social and Ethics Committee assist the Board in its responsibility for setting and administering remuneration policies.

National Treasury evaluated the remuneration level for Interfront Board members and approval was granted by the Minister of Finance for the following remuneration rates to be paid:

Category Classification A1 (part-time members)		
Remuneration	2013/14 rates	
Chairperson	R 4 112 per day	R 514 per hour
Members	R 3 056 per day	R 382 per hour

Mr Mustaq Enus-Brey being an independent, non-executive director and Chairperson of the Interfront Board, as well as a member of the Remuneration, Social and Ethics Committee receives remuneration as Chairperson and as member of the Committee as aforesaid.

The remuneration paid to the executive directors and the independent non-executive director is set out in Part F: Annual Financial Statements of this report.

5 Board Committees

5.1 Remuneration, Social and Ethics Committee

Kosie Louw is the Chairperson of the Committee and the members are Mustaq Enus-Brey and Gene Ravele. The permanent invitees are the directors Bob Head, Graham Randall, John Robertson and Leilanie Janse van Rensburg, Interfront's Human Resources Manager, SARS: Company Secretary and Mike Olivier a Specialist Advisor with over 14 years' experience in remuneration, human resources and strategy consulting.

The terms of reference sets out the responsibilities of the Remuneration, Social and Ethics Committee, which include but are not restricted to:

- ensure that the company remunerates its personnel, executives and directors fairly and responsibly;
- monitor the disclosure of director's remuneration as being accurate, complete and transparent; and
- monitor Interfront's activities concerning matters relating to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relations as well as matters relating to labour and employment.

5.2 Finance Committee

A Finance Committee was established to support the joint SARS Audit Committee and the Interfront Board in the oversight of inter alia:

- financial reporting;
- the effectiveness of system of internal control;
- the performance of Interfront's internal audit and the external auditors; and
- risk management.

Interfront's principal goal is to run a sustainable company providing customs and border management solutions. It has a clear view of its strategic objective and strives towards securing the planned outcome through an approach of pro-active risk management.

A pro-active risk based approach provides an objective, systematic and defensible framework to make informed decisions around the setting of priorities and for allocating scarce resources to manage risk.

The risk management policy sets out the guiding principles to identify and manage the most important business risks in the company. The taking of controlled risks and using innovative approaches to further the interest of Interfront are encouraged, if the resultant exposures from the associated risks are within the tolerance range and will not:

» negatively impact the reputation of Interfront;

» negatively impact the performance of Interfront; or

» result in material financial loss to Interfront.

Risk management activities are aligned to organisational goals, objectives and key priorities to ensure that these are successfully accomplished. A strategic risk assessment session is conducted as part of Interfront's annual strategic planning to determine the strategic risks facing the company. The strategic risk assessment also informs the strategic and operational plans.

The following risks were identified as the top five risks (from highest to lowest) through the year and mitigating actions were directed at reducing the likelihood of the occurrence and impact:

Risk	Mitigating Actions Performed
Loss of skills/Key staff	Continuous market alignment of remuneration Encourage and support staff needs by engaging in staff/management forums Nurture and enhance team culture Support and encourage targeted training Promote transparent and equitable HR practices Analyse culture survey results and implement action plan Execute career planning processes Establish proper succession planning practises

Risk	Mitigating Actions Performed
Removing key open source components from iCBS can impact future value offer to potential new customers	Define and communicate impact to stakeholders. Evaluate impact on value offering.

Risk	Mitigating Actions Performed
Business strategy not clear in the minds of staff	Determine Interfront's direction after iCBS "go-live"
Dependency on single client	Promote marketing collateral to Value Added Resellers Regular engagement with Value Added Resellers Execute a marketing and sales plan together with resellers Support resellers on qualified new opportunities
Business continuity in case of disaster	Review and update Information and Communication Technology Disaster Recovery Policy Establish a Business Continuity Plan Test aspects of Business Continuity Plan

7 Internal Audit

Internal audit reviewed the general, operational and security controls around the systems that host and process data. The controls were evaluated for adequacy and effectiveness.

The objective of the internal control system is, inter alia, to provide management with reasonable but not absolute assurance that risks that may have an impact on Interfront achieving its objectives are properly managed and that the controls are adequate and effective. Management is responsible for the establishment and maintenance of sound systems of internal control. Internal Audit's mandate was to independently evaluate the way that business is managing the risks.

7.1 Findings

There were no significant audit findings to be reported to the Audit Committee.

8 Audit Committee

The Audit Committee has been combined with the SARS Audit Committee. This allows for independent oversight. The members of the Audit Committee and details of their attendance of meetings are set out below. A Finance Committee has been established by the Interfront Board under the chairmanship of a non-executive director who is the acting Chief Financial Officer of SARS, to review finance matters in advance of Audit Committee meetings.

The Audit Committee oversees the integrity of Interfront's accounting and reporting practices and financial statements. While the Audit Committee's key focus is on financial reporting controls it increasingly oversees the controls that ensure legal and regulatory compliance.

The Audit Committee oversees the external auditor (AGSA), assesses its independence, discusses the audit scope and reviews its compensation.

The internal audit function is a key resource for the Audit Committee and the purpose, responsibility and authority of the internal audit function is embedded in its Charter.

9 Compliance with Laws and Regulations

Interfront is a wholly owned subsidiary and is thus required to align with the parameters applied by the shareholder. Some degree of autonomy is allowed; however, to provide for its commercial position in the market. This balance is achieved through the composition of the Board and the mechanism through which the shareholder approves the company's remuneration policy.

Interfront's strategic goals are reported on in the consolidated annual report of the shareholder. Performance is closely monitored and forms part of the evaluation of the effectiveness of the Board and its sub-committees by the shareholder and regular feedback is provided to the Commissioner and the Minister of Finance.

A dedicated non-executive director has been identified to liaise with executive management and to represent the shareholder with internal and external stakeholders. This has strengthened Interfront's position and contributed to maturing its long-term strategy.

The shareholder regards these governance arrangements as being most appropriate in the circumstances. With due consideration to these matters, it is submitted that Interfront is fully compliant with the recommendations contained in King III, except as set out in this report, bearing in mind the nature of the company.

A Companies Act Compliance Matrix is maintained to ensure that Interfront complies with the provisions as set out in the Companies Act.

An annual general meeting was held on 9 September 2013 and the following matters were addressed:

- approval of the annual financial statements;
- re-appointment of external auditors;
- appointment of the Audit Committee;
- adoption of the Memorandum of Incorporation; and
- the remuneration of the non-executive, independent director.

10 Fraud and Corruption

Interfront's Fraud Prevention Policy is currently in draft format and will be tabled for Board approval. There is a high degree of direct supervision and no instances of fraud or corruption have been reported in the current year.

11 Minimising Conflicts of Interest

All staff and directors are required to complete the declaration of private interests at the date of their appointment, as well as at regular intervals thereafter, to ensure transparency with regard to staff and directors private interests. It prevents favouritism and conflicts of interest during the procurement of services and goods. It further ensures that work/business interests outside of Interfront will not negatively impact the responsibilities/obligations toward Interfront or create conflicts of interest between employer and employee.

The annual declaration of interests, also relates to any spouse, child and/or any person who is wholly or substantially dependent on the Interfront staff or Board member and/or whose affairs are closely connected with the affairs of the Interfront staff or Board member concerned.

Sound procurement processes are in place and no condonations have been reported.

12 Code of Conduct

A formal Code of Conduct policy was adopted during the 2013/2014 financial year. The purpose of the Code is to express the set of values and behaviour expected of Interfront staff, to ensure that they conduct themselves in an appropriate and ethical manner. These values and behaviours are essential for the effective administration of Interfront's operations and form one of the cornerstones of the Interfront model of good governance.

The standards of conduct required by the Code must be met by Interfront staff when in an official capacity and to the extent applicable, when acting in a non-official capacity in circumstances where the staff member may be recognised or be known to be an Interfront employee.

The policy also makes provision for the disclosure of financial interests and assets by staff and requires staff not to engage in any action that may give rise to a conflict of interest in the execution of his or her official duties.

13 Health, Safety and Environmental Issues

Interfront's Health and Safety Policy was reviewed during the year under review. The policy provides for:

» the conduct of our business with respect and care for people and the environment;

» ensuring compliance with the general safety regulations;

» the responsible utilisation of natural resources;

» complying, with all applicable legal and other agreed requirements; and

» promoting dialogue with stakeholders about safety, health and environmental performance.

14 Company Secretary

The role and responsibilities of the Company Secretary include but are not limited to the following:

» makes directors aware of all laws and regulations relevant to Interfront;

» schedules Board and Committee meetings;

» ensures that the directors and management operate within an authority framework approved by the Board;

» takes responsibility for the preparation of all or parts of the annual report and ensures that statutory deadlines are met;

» acts in good faith and avoids any conflict of interest and ensures that appropriate guidance is given to the Board in all matters relating thereto;

» ensures compliance with all the statutory provisions of the Companies Act; and

» ensures compliance with the Memorandum of Incorporation.

15 Social Responsibility

Interfront seeks to be an active and responsible company within its community and is engaged in several initiatives in this regard. Donations of computers were made to two local educational institutions and assistance was provided with the installation.

As part of the Employment Equity strategy, Interfront developed and implemented a bursary scheme. One of the primary purposes of the scheme is to target employment equity candidates and to promote balance and diversity in the IT sector. Two bursary students were sponsored to further their IT qualifications at tertiary institutions.

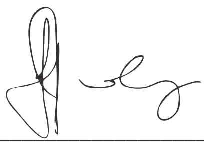
The Graduate Programme also commenced during the year under review and serves to address Interfront's social responsibility towards helping the youth of South Africa.

More information regarding both the Bursary Scheme and Graduate Programme can be found in Part D: Human Capital Management.

Staff undertook various projects at their own expense such as the assistance provided to the Heldervalley Learning Centre. This is a local community centre empowering disadvantaged urban, rural and farming communities through practical and affordable training in the Boland and Heldervalley District of the Western Cape.

16 Declaration of the Company Secretary

I, the undersigned L.L Janse van Rensburg in my capacity as Company Secretary, certify that the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



L.L Janse van Rensburg
Company Secretary
31 July 2014

17 Audit Committee Report

17.1 Introduction

The Interfront Audit Committee is combined with the SARS Audit Committee. This allows for independent oversight.

17.2 Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2014 in terms of Treasury Regulations 3.1.1.9 and 10 whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of the monthly and quarterly reports, as well as its own evaluation of the annual financial statements.

17.3 Audit Committee Members and Attendance

The Audit Committee operates in terms of approved written terms of reference, which deals with its membership, authority and responsibilities. These terms of reference are reviewed on an on-going basis to ensure their continued relevance (Treasury Regulation 27.1.6).

The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. The Audit Committee consisted of four external members listed hereunder and held four meetings for the financial year under review. Mr Bongani Nqwababa voluntarily recused himself from the Audit Committee since March 2013.

17.4 Audit Committee Attendance

Audit Committee Members	Meeting Dates			
	26 JULY 2013	30 JULY 2013	13 SEP 2013	15 NOV 2013
Mr Bongani Nqwababa (Chairperson – Voluntarily recused himself during the year under review): Finance Director: Anglo American Platinum Limited; B. Acc Hons (University of Zimbabwe), CA (ZIM), MBA in Finance (Universities of Manchester and Wales), Bangor	X (RECUSED)	X (RECUSED)	X (RECUSED)	X (RECUSED)
Ms Berenice Lue-Marais (Acting Chairperson): Head: Strategic Contracts, CSIR; MBA International Finance (The American University, Washington, DC), Bachelor of Arts, BA Economics (The University of the District of Columbia, Washington, DC)	√ (CHAIR)	√ (CHAIR)	√ (CHAIR)	√ (CHAIR)
Mr Vuyo Kahla: Group Executive: Advisory & Assurance and Company Secretary: Sasol Limited; Bachelor of Arts (Rhodes University), LLB (Rhodes University)	√	√	√	√
Sathie Gounden: Professional Director B. Compt. – Unisa, Diploma in Accounting - University of Durban-Westville, Chartered Accountant (S.A.), Registered Auditor, Certificate in Forensic Accounting & Fraud Examination - University of Pretoria, Fellow of the Institute of Chartered Secretaries (CIS)	√	√	√	√

17.5 Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1) (a) (ii) and 76(4) (d) of the PFMA, and Treasury Regulation 27.1. The Audit Committee has regulated its affairs in compliance with its Terms of Reference and has discharged all its responsibilities as contained therein.

17.6 The Effectiveness of Internal Control

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. From the various reports issued by the Internal Audit function, the external Audit Report on the Annual Financial Statements and management letters of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures has been reported.

In line with the PFMA and the King III Report on Corporate Governance, the Internal Audit function provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The Audit Committee satisfied itself that Interfront took the necessary steps to maintain the effective functioning of its Internal Audit that is contracted in from its shareholder SARS. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

17.7 Evaluation of Financial Statements

The Audit Committee has:

a) Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Auditor-General and the Accounting Officer;

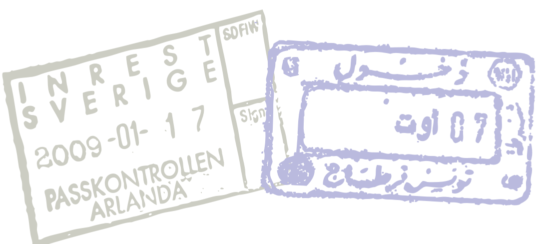
b) Reviewed the Auditor-General's management letters and management's responses thereto;

c) Reviewed accounting policies; and

d) Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the Annual Financial Statements and recommends that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Bongani Nqwababa
Chairperson
25 July 2014



HUMAN CAPITAL MANAGEMENT

PART D

- Staff Turnover
- Employment Changes
- Employment Vacancies
- Improved Training and Development
- Managing Diversity
- Bursary / Graduate Programme
- Implementing Organisational Development Initiatives
- Policy Development
- Challenges
- Focus for 2014/2015
- Remuneration

HUMAN CAPITAL MANAGEMENT

1 Staff Turnover

We are continuously seeking better methods to reduce staff turnover. Exit interviews were utilised as an initial point of departure and some of the methods applied were:

» regularly reviewing and benchmarking salaries with the market;

» improving training and development for all staff, especially in the technical disciplines; and

» new and increased opportunities for promotions and career advancement.

Staff turnover has decreased from 24.7% (2012/2013) to 13.9% (2013/2014). Interfront experiences difficulty in finding developers as the market is limited and competitive. Staff turnover can be attributed to industry demands, as most IT skills are scarce with java developers in very high demand.

Further initiatives to decrease the staff turnover, include:

» continued emphasis on training and development; and

» growing staff to fill vacancies on higher levels.

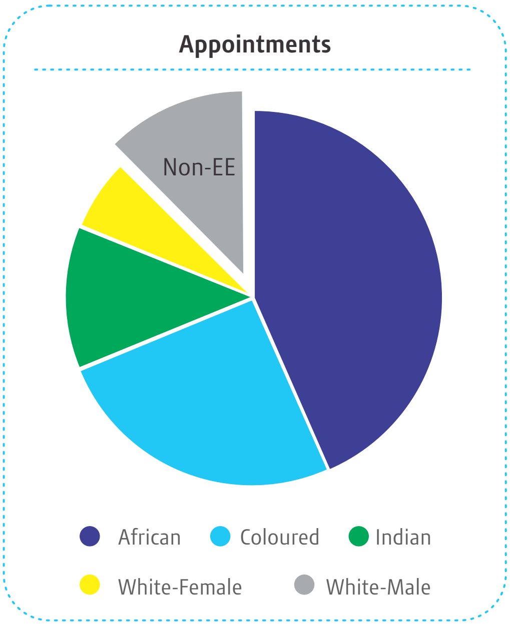
Staff turnover included ten resignations and one dismissal for non-preformance. Feedback from staff through exit interviews in the current year indicated that most resignations were due to other job opportunities. Generally, employees stated that they would recommend Interfront to others as a preferred employer. Although some negative feedback were received, it was good to note that these were not repeated.

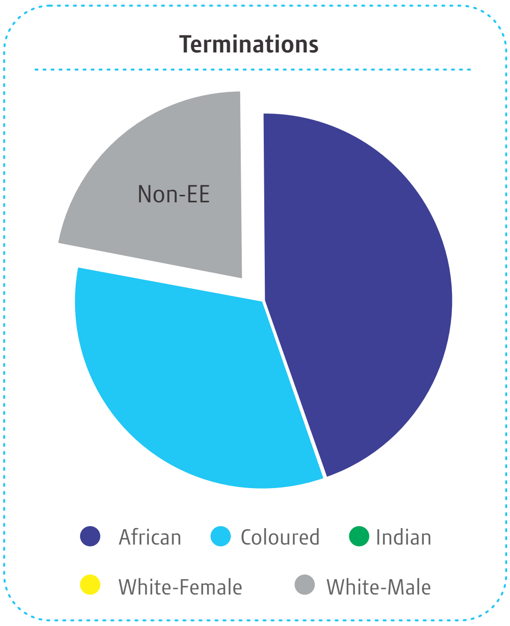
2 Employment Changes

The overall level of employment showed a steady growth toward the approved establishment of 90 posts. A strong base is being laid which can support rapid growth to service new contracts. At the same time, progress continues to be made in achieving a diverse workforce. Detailed statistics of terminations and appointments is set out below.

Employment Changes

Level	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
EXCO	3	0	0	3
Senior Managment	12	1	2	11
Professional Qualified	13	1	3	11
Skilled	42	9	4	47
Semi-Skilled	5	5	0	10
Unskilled	1	0	0	1
Total	76	16	9	83





3 Employment and Vacancies

Ongoing attention is being devoted to sourcing scarce skills and investing in providing more depth, as well as multi-skilling current employees. Posts are not filled unless they are matched with confirmed customer orders.

2012/2013 No. of Employees	2012/2013 Approved Posts	2013/2014 No. of Employees	2013/2014 Vacancies	% of vacancies
76	90	83	7	7.78%

Level	2012/2013 No. of Employees	2012/2013 Approved Posts	2013/2014 No. of Employees	2013/2014 Vacancies	% of vacancies
EXCO	3	3	3	0	0%
Senior Management	12	13	11	2	14.3%
Professional qualified	13	13	11	2	11.4%
Skilled	42	50	47	3	5.6%
Semi-Skilled	5	10	10	0	0.0%
Unskilled	1	1	1	0	0.0%
TOTAL	76	90	83	7	7.78%

4 Improved Training and Development

After a period of dedicated focus on the SARS customs modernisation deliverables in the previous financial year, a much needed training and development plan, supported by a budget, was put in place for the 2013/2014 year. It has become evident that staff retention will be dependent on investment in the development of employees, particularly in the context of the increased competition faced by IT companies. Base lining certain technical knowledge and skills emerged as a need within Interfront. Ensuring shared levels of skills are in place within the technical disciplines allows the company to lift performance standards to the next level. Investing in our human capital specifically with regard to training and development has therefore been identified as an integral element of Interfront corporate strategy.

The plan and budget was based on a comprehensive needs analysis and subsequent to reaching the milestone of the SARS iCBS "go live" in August 2013, training and development was done in the following areas: leadership and management, IT, Java design and development, software testing, soft skills as well as support of formal studies/qualifications.

To deal with shortages in the labour market Interfront has further continued to invest in our graduate programme to external candidates in order to decrease staff shortages in the scarce skills field. This takes the form of vocational training and is of benefit to the individuals, the company and the general IT market.

Further detail of the training costs is included in the following table:

Business Unit	Personnel Expenditure (R'000)	Training Expenditure (R'000)	Training Expenditure as a % of Personnel Cost	No. of Employees at year-end	Avg. training cost per employee
Operations	38 442 531	845 111	1.9%	71	11 903
Corporate	6 355 890	66 555	1.5%	12	5 546
Total	**44 661 842**	**911 667**	**2.04%**	**83**	**10 984**
Bursaries		139 643	0.3%	3	46 548
Interfront-Professional membership		18 133	0.4%	5	3 623
Staff Study assistance		56 123	0.1%	5	11 225
GRAND TOTAL	**44 661 842**	**1 125 566**	**2.51%**	**83**	**13 561**

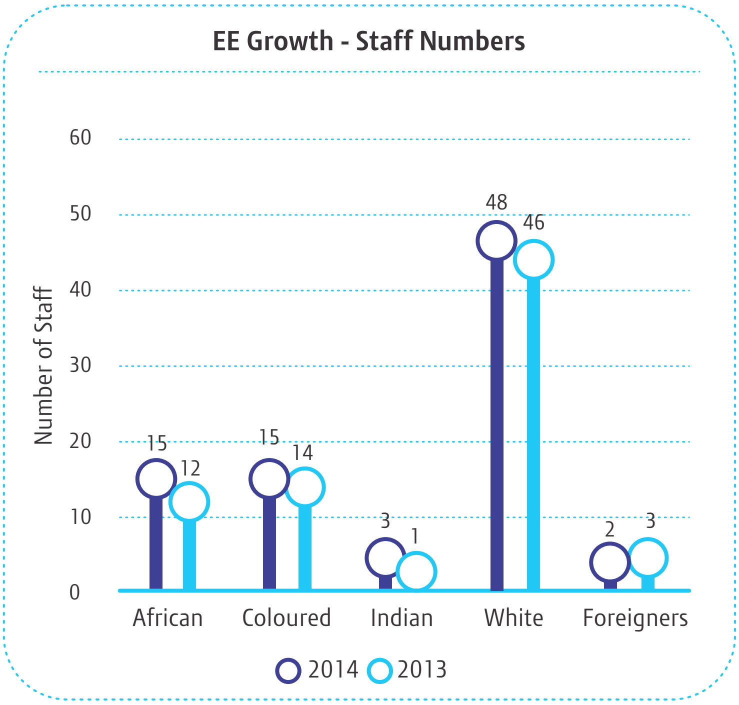
5.1 Recruitment and Employment Equity

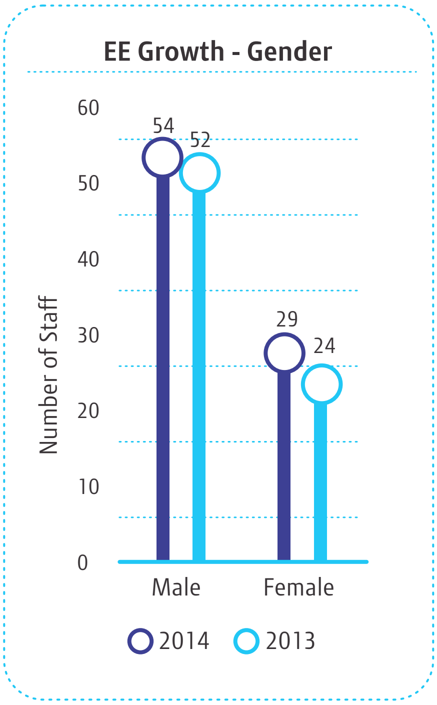
Building a diverse group within our staff is an ongoing key priority. Employment equity statistics indicate an overall increase in the designated groups from 36% to 40% (excludes white females). Total EE figures (including white females) grew from 46% to 58%. The female to total staff ratio also increased from 31% to 35%. Various means to increase appointments of employment equity candidates have been implemented. The recruitment and selection strategy has been contributing to an increase in qualified EE candidates. This is evident in the improved demographics set out below. The high staff turnover of employees in the targeted groups has proven to be a challenge during the year and will necessitate increased focus on retention in this area.

5.2 Equity Target and Employment Equity Status

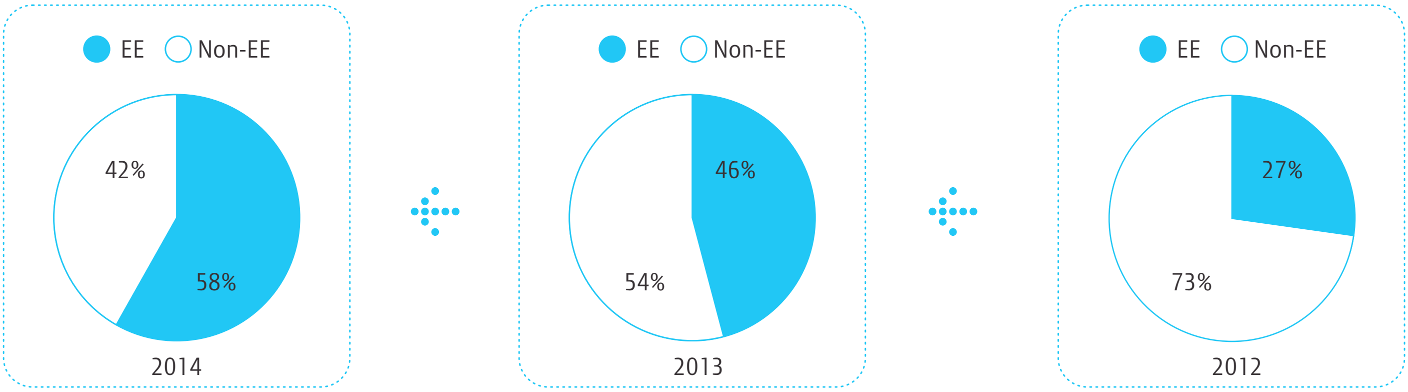
Employee Demographics

Levels	African		Coloured		Indian		White		Foreign Nationals		TOTALS
	2014	2013	2014	2013	2013	2014	2014	2013	2014	2013	2014
EXCO	0	0	0	0	0	0	3	3	0	0	3
Senior Managment	1	2	1	1	1	0	8	9	0	0	11
Professional qualified	1	2	1	2	0	0	9	8	0	1	11
Skilled	10	7	7	7	1	1	27	24	2	2	47
Semi-Skilled	2	0	6	4	1	0	1	2	0	0	10
Unskilled	1	1	0	0	0	0	0	0	0	0	1
TOTAL	**15**	**12**	**15**	**14**	**3**	**1**	**48**	**46**	**2**	**3**	**83**

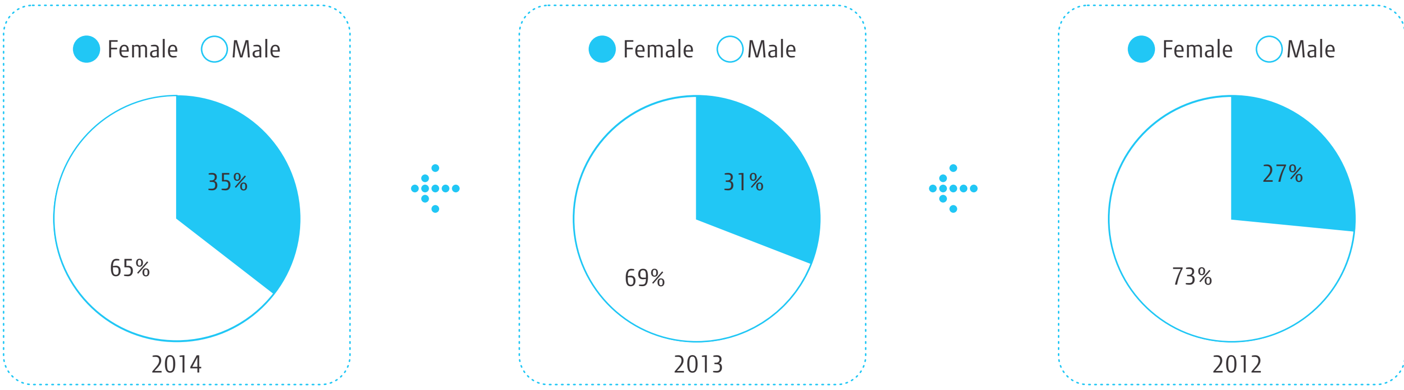




% EE Representative



% Gender Representative



6 Bursary / Graduate Programme

Interfront is sponsoring two bursary students at tertiary institutions who are studying towards IT qualifications to improve limited EE skills in the IT environment. These students will join our graduate programme as soon as they have completed their studies. The scheme was initiated with only two students and we plan to increase the number to five during the coming year.

The Graduate Programme commenced during the year and we have appointed three EE graduates to go through the programme, one of whom was a previous Interfront bursary student. The aim is to appoint young inexperienced IT graduates and provide training with the intention of retaining them after their twelve-month graduate programme has been completed.

We welcomed **Kabelo Pelo** as part of our staff complement in January 2014. Kabelo is our first bursary student to join Interfront. He is currently part of the ICT department and has proven to be a real asset to the company. We are proud to be part of his success story and believe that he will continue to be an asset to the IT industry into the future.

7 Implementing Organisational Development Initiatives

7.1 Culture Survey

In order to identify culture change barriers, Interfront embarked on a culture survey applying the Denison Model culture survey tool. 92% of the staff participated. The survey gave management a clear indication of the areas that need attention in the short, medium and long-term, the most significant being communication. Although we will embark on a formal process to address these areas, we have already implemented key interventions to ensure continuous improvement. It was pleasing to note that staff felt overall that we have a very good team culture. This is evident in the successful "go-live" and other successes in this report.

7.2 Performance Management

Over the last two years, special attention has been devoted to implementing and improving the performance management system. It comprises performance agreements/objectives, performance reviews, personal development plans (PDP's) and a rewards system as the basic pillars. Individual training, which takes place, is personalised, based on PDP's and aims at improving productivity.

8 Policy Development

Interfront is engaged in an ongoing process of reviewing and updating company policies. During the year under review the code of conduct, drug and alcohol as well as the suspension policies have been revised. There is a legacy of staff who were appointed on differing conditions of service and a process has been instituted with a view to revising and harmonising the basic conditions applicable to all staff.

9 Challenges

In addition to retaining staff, Interfront does not have the benefit of a comprehensive ERPS (enterprise resource planning system) due to its size. An appropriate and affordable system is being sought to provide meaningful management information and analytics.

10 Focus for 2014/2015

As we mature further as a company, we will be looking to refining our systems and processes and to grow our workforce sustainably in an atmosphere supported by sound values and a strong organisational culture.

11 Remuneration

Remuneration is based on positioning Interfront close to commercial market norms bearing in mind that direct remuneration is only one element of the overall benefits, which also include significant investment in skills growth, security and a unique learning environment. Professional remuneration analytics provide the foundation and individual staff members are positioned with a view to their individual skill and performance.

Details of personnel cost for the year under review are set out below:

11.1 Total Personnel Cost

Total Expenditure R	Personnel Expenditure R	Personnel expenditure as a % of total	Number of employees (acg. per year)	Average personnel cost per Employee R
63 332 898	48 187 997*	76.09%	77.11	573 532*

* Amount included personnel cost other than salaries such as recruitment fees etc.

11.2 Personnel Cost by Salary Band

Level	Personnel Expenditure R	Personnel expenditure as a % of total	Number of employees (acg. per year)	Average personnel cost per Employee R
EXCO	4 779 585	10.7%	3.00	1 593 195
Senior Management	9 213 744	20.6%	11.92	773 181
Professional qualified	7 539 449	16.9%	11.06	681 408
Skilled	21 836 510	48.9%	44.52	490 501
Semi-Skilled	1 204 436	2.7%	6.04	199 289
Unskilled	88 117	0.2%	1.00	88 117
TOTAL	**44 661 842**	**100.0%**	**77.54**	**575 957**

11.3 Performance Rewards (performance bonus)

Level	Performance rewards* R	Personnel expenditure R	% of performance rewards to total personnel cost
EXCO	160 775	4 779 585	3.4%
Senior Management	163 703	9 213 744	1.8%
Professional qualified	78 237	7 539 449	1.0%
Skilled	275 936	21 836 510	1.3%
Semi-Skilled	14 645	1 204 510	1.2%
Unskilled	2 221	88 117	2.5%
TOTAL	**695 517**	**44 798 421**	**1.6%**

* Performance reward period was moved to align with year-end. The amount paid was only applicable for a 4-month period and was thus pro-rated. The personnel cost includes, **inter alia**, hourly paid staff members, students and temporary employee who do not qualify for bonuses.

FINANCIAL INFORMATION

PART E

» Statement of Responsibility for the Annual Financial Statements

» Report by the Board of Directors

» Finance Report

» Report of the External Auditor

1 Statement of Responsibility for the Annual Financial Statements

The Board is responsible for the preparation of Interfront's annual financial statements and for the judgements made in this information.

The Board is responsible for establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements.

In my opinion, the financial statements fairly reflect the operations and Interfront for the financial year ended 31 March 2014.
.
The external auditors are engaged to express an independent opinion of the annual financial statements of Interfront.

The 2013/2014 annual financial statements for the year ended 31 March 2014 have been audited by the external auditors and their report is presented in this Part E: Financial Information.

The annual financial statements of Interfront set out in Part F: Annual Financial Statements have been approved.

Graham Randall
Chief Executive Officer
Interfront SOC Ltd
31 July 2014

Mustaq Enus-Brey
Chairperson of the Board
Interfront SOC Ltd
31 July 2014

2 Report by the Board of Directors

The Board submits its report for the year ended 31 March 2014.

2.1 Incorporation

The entity was incorporated on 20 April 2009 and obtained its certificate to commence business on the same day.

2.2 Review of activities

Main business and operations

The entity is primarily engaged in the following:

» to hold, invest in and develop customs and border management software solutions for use by border control and revenue agencies around the globe, and

» to commercialise the software solutions to enable marketing thereof globally and operates principally in South Africa.

The operating results and state of affairs of the entity are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the entity was R 7 412 189 (2013: surplus R 22 784 846), after taxation of R 3 581 535 (2013: R 7 223 429).

2.3 Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

2.4 Subsequent Events

The Board is not aware of any matter or circumstance arising since the end of the financial year that impacted the state of affairs as at year-end materially.

2.5 Accounting Policies

Refer to the annual financial statements for detailed disclosure on all accounting policies.

2.6 Share Capital

There were no changes in the authorised or issued share capital of the entity during the year under review. Interfront is capitalised by a way of an interest free shareholder's loan that has no fixed term of repayment. This loan has been subordinated to other creditors.

2.7 Distributions to Owners

No dividends were declared or paid to SARS during the year. A loan repayment of R10 000 000 was made.

2.8 Board

Detail of the board members can be found under Part C: Governance

2.9 Secretary

L.L. Janse van Rensburg continued in office as Company Secretary. She is also a member of the Interfront Board, although not in line with the King III recommendations, the Board is confident that her independence is not diluted.

2.10 Corporate Governance

Interfront adheres to the statutory duties and responsibilities set out in the Companies Act and amplified by the PFMA. In addition, Interfront is guided on best practices by King III. Interfront has substantially applied the King III principles and practices. Detailed disclosure on governance matters can be found in Part C: Governance.

Remuneration

Refer to Part C: Governance for detail disclosure on the determination of the remuneration of directors

Internal audit

The entity has outsourced its internal audit function to SARS. This is in compliance with the Public Finance Management Act, 2003.

2.11 Controlling Entity

The entity's controlling entity is the South African Revenue Service established by the South African Revenue Service Act of 1997.1

2.12 Auditors

In line with the requirements of the PAA the Auditor General of South Africa will continue in office for the next financial period.

3 Finance Report

3.1 Introduction

Interfront delivered sound financial results during the year under review. Resources were applied to those areas identified in the budget to support the realisation of our strategic objectives.

3.2 Results Overview

Total revenue decreased by 16.7% to R 74.3 million (2013: R 89.3 million), mainly attributable to the once off settlement fee of the prior year (8.6%) and decreased staff numbers, due to a higher rate of vacancies in the 2013/14 financial year (7.8%). This is also reflected in the employee cost that decreased by 7.5% to R 48.2 million (2013: R 52.1 million).

The IP became available for use in August 2013 after which amortisation commenced, resulting in an initial charge of R 4.6 million.

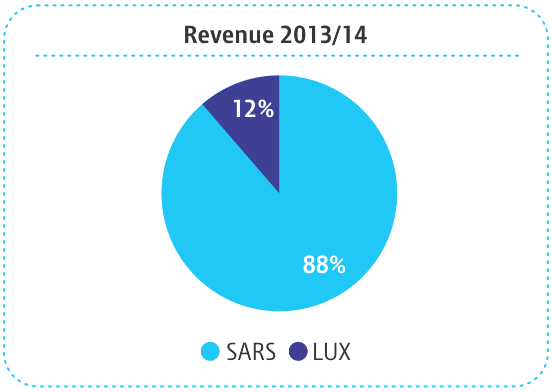
Cost containment is a high priority and increases on day-to-day expenses were reduced or limited with the exception of certain budgeted projects that resulted in the 28.4% increase in other expenditure, of which the following are the most significant:

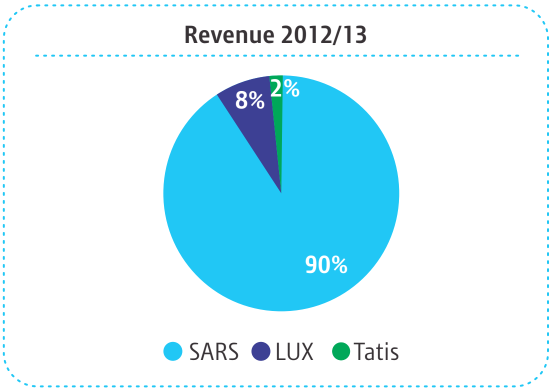
- Transfer of IBM licences and maintenance contracts previously covered by our parent.
- Increase in HR cost due to sourcing of scarce skills (mostly placement fees and leave payouts).
- Implementation of the bursary scheme to support our EE plan.
- Increase in international travel to support and foster client relations.
- Improvement of internal systems and related software upgrades/implementations.

Net surplus before tax, excluding once off items, stabilised at 14.8% (2013: 30.2%). The previous period embraced the turn-around, which was devoted to ensuring high-quality product and a viable return. This was achieved early in the previous financial year and the focus shifted to maintaining a positive financial position, while laying the foundation to support a growing company, resulting in a focus on our systems and control environment. We have made good progress, whilst there is some room for improvement, our current environment will support an effective growing company in the near to medium-term.

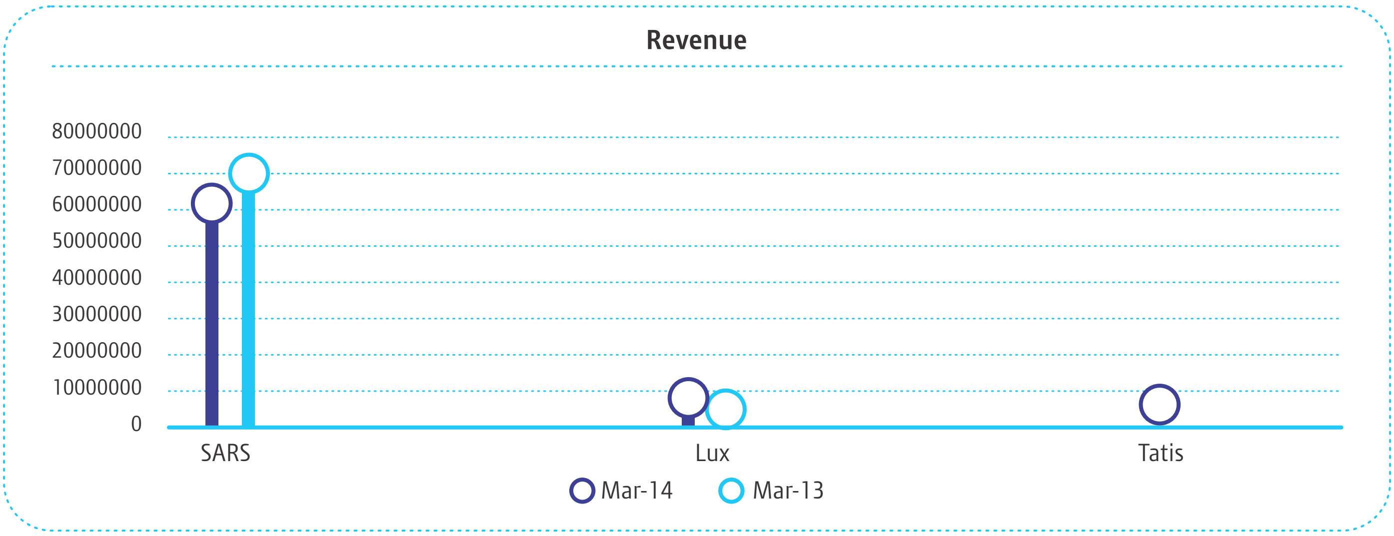
REVENUE

Composition of Revenue





Revenue Fluctuation



3.3 Cash Flow

The cash flow continued to be stable. Interfront repaid R 10 million of the shareholders loan during the first half of the year. Due to its nature the shareholders loan is classified as equity, remains unsecured and is interest free, with no fixed terms of repayment.

3.4 Assets

Current assets increased by 13 % to R 37 358 184 (2013: R 32 969 630). This is mainly attributable to cash and cash equivalents that increased to R 23 642 514 (2013: R 15 329 851), in contrast with trade and other receivables that decreased by 33%. The increased bank balance will provide working capital to enable a ramp up in the event of new business.

Non-current assets remained stable with the exception of the intangible asset value that decreased due to the commencement of amortisation of the IP in the current year.

3.5 Liabilities

Current liabilities increased by 65%. This is mainly attributable to the bonus period that was moved to align with that of our parent and necessitated a twelve-month provision.

3.6 Foreign Exchange Rates

The Rand weakened substantially against the Euro during the last twelve months. The average Rand/Euro exchange rate was R 13.54 for the period compared to R 10.94 in the previous period. This resulted in a foreign exchange profit of R 260 403 and an increase in revenue, attributed to the exchange rate of R 569 455.

3.7 Audit Report

We are pleased to report that we have once again received a clean audit report. We have been through an extensive process the past two years to ensure efficient segregation of duties and implementation of other controls to create a solid sustainable control environment.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON INTERNATIONAL FRONTIER TECHNOLOGIES (INTERFRONT) SOC LTD

Introduction

1 I have audited the financial statements of Interfront SOC Ltd set out on pages 52 to 86, which comprise statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets, and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's Responsibility for the Financial Statements

2 The Board of Directors, is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999), and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3 My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6 In my opinion, the financial statements present fairly, in all material respects, the financial position of Interfront SOC Ltd as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA.

Additional Matter

Other reports required by the Companies Act

7 As part of our audit of the financial statements for the year ended 31 March 2014, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Report on other Legal and Regulatory Requirements

8 In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined Objectives

9 I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of Interfront SOC Ltd for the year ended 31 March 2014:

» Objective 1: Develop and support a Customs and Border management solution for SARS on pages 17 to 18

» Objective 3: Establish a broader customer base on page 19.

10 I evaluated the reported performance information against the overall criteria of usefulness and reliability.

11 I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

12 I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

13 I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Achievement of Planned Targets

14 Refer to the annual performance report on pages 15 to 21 and 17 to 19 for information on the achievement of the planned targets for the year.

Compliance with legislation

15 I performed procedures to obtain evidence that Interfront SOC Ltd had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

16 I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor-General

Auditor-General

Pretoria
31 July 2014

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNUAL FINANCIAL STATEMENTS

PART F

- Board's Responsibilities and Approval
- Statement of Financial Position as at 31 March 2014
- Statement of Financial Performance
- Statement of Changes in Net Assets
- Cash Flow Statement
- Accounting Policies
- Notes to the Annual Financial Statements

BOARD'S RESPONSIBILITIES AND APPROVAL

The Board is required by the Public Finance Management Act (Act No. 1 of 1999) (PFMA), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Board to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board acknowledges that it is ultimately responsible for the system of internal financial control established by the entity, and place considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board is of the opinion, based on the information and explanations given by management and discussions with both internal and external audit that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Although the Board is primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 48 to 49.

The annual financial statements set out on page 52, which have been prepared on the going concern basis, were approved by the Board on 31 July 2014 and were signed on its behalf by:

Graham Randall
Managing Director
31 July 2014

Mustaq Enus-Brey
Chairperson
31 July 2014

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

Figures in Rand

ASSETS	Notes	2014	2013
Current Assets			
Current tax receivable		3,582,235	2,300,245
Trade and other receivables	4	10,133,435	15,218,191
VAT receivable	13	-	121,343
Cash and cash equivalents	5	23,642,514	15,329,851
		37,358,184	**32,969,630**
Non-Current Assets			
Property, plant and equipment	6	3,553,621	3,687,397
Intangible assets	7	70,343,952	74,167,915
Deferred tax	8	1,147,452	1,020,643
		75,045,025	**78,875,955**
Total Assets		**112,403,209**	**111,845,585**
LIABILITIES			
Current Liabilities			
Finance lease obligation	9	54,295	32,464
Operating lease liability	11	215,073	145,427
Trade and other payables	12	4,220,770	3,513,977
VAT payable	13	414,064	-
Provisions	14	3,372,221	1,320,000
		8,276,423	**5,011,868**
Non-Current Liabilities			
Finance lease obligation	9	95,952	-
Operating lease liability	10&11	-	215,073
		95,952	**215,073**
Total Liabilities		**8,372,375**	**5,226,941**
Net Assets		**104,030,834**	**106,618,644**
NET ASSETS			
Share capital	15	1	1
Shareholder's subordinated loan - equity	16	92,711,836	102,711,836
Accumulated surplus		11,318,997	3,906,807
TOTAL NET ASSETS		**104,030,834**	**106,618,644**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand

Revenue	Notes	2014	2013
Rendering of services		72,992,515	79,920,167
Settlement fee income		-	7,653,556
Profit from exchange transactions		260,403	1,116,750
Other income		70	-
Interest received		1,073,634	572,836
Total revenue		**74,326,622**	**89,263,309**
Expenditure			
Employee costs		(48,187,997)	(52,098,588)
Depreciation and amortisation	6&7	(6,771,276)	(2,917,492)
Impairment loss	6	(15,679)	(859)
Finance costs	21	(11,499)	(11,313)
Doubtful debts		-	2,284,974
Repairs and maintenance		(383,030)	(132,959)
Administrative Expenses		(6,945,450)	(5,698,447)
Professional and special services		(1,017,968)	(680,350)
Total expenditure		**(63,332,899)**	**(59,255,034)**
Operating surplus	22	**10,993,723**	**30,008,275**
Surplus before taxation		**10,993,723**	**30,008,275**
Taxation	23	3,581,535	7,223,429
Surplus for the year		**7,412,188**	**22,784,846**

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand

	Share capital	Shareholder's loan-Enquity	Accumulated surplus/ (deficit)	Total Net Assets
Balance at 01 April 2012	**1**	**102,711,836**	**(18,878,039)**	**83,833,798**
Changes in net assets				
Surplus for the year	-	-	22,784,846	22,784,846
Total Charges	-	-	22,784,846	22,784,846
Balance at 01 April 2013	**1**	**102,711,836**	**3,906,809**	**106,618,646**
Changes in net assets				
Surplus for the year	-	-	7,412,188	7,412,188
Repayment of Shareholders Loan	-	(10,000,000)	-	(10,000,000)
Total changes	-	(10,000,000)	7,412,188	(2,587,812)
Balance at 31 March 2014	**1**	**92,711,836**	**11,318,997**	**104,030,834**
Note(s)	15	16		

CASH FLOW STATEMENT

Figures in Rand

Cash flows from operating activities	Notes	2014	2013
Receipts			
Rendering of services		79,048,539	74,518,676
Other income		70	-
Interest received		1,073,634	572,836
Settlement fee income		-	7,653,556
Foreign exchange gain		260,403	1,116,750
		80,382,646	**83,861,818**
Payments			
Employee cost		(48,187,997)	(51,672,880)
Suppliers		(5,732,865)	(9,319,013)
Prepayment Movement		(971,267)	-
Taxes on surpluses	26	(4,990,334)	(9,018,741)
VAT movement		535,407	(964,460)
		(59,347,056)	(70,975,094)
Net cash flows from operating activities	25	**21,035,590**	**12,886,724**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1,809,202)	(662,874)
Purchase of other intangible assets	7	(1,020,010)	(263,840)
Shareholder's loan	16	(10,000,000)	-
Net cash flows from investing activities		**(12,829,212)**	**(926,714)**
Cash flows from financing activities			
Finance lease payments		106,284	(100,714)
Net increase in cash and cash equivalents		**8,312,662**	**11,859,296**
Cash and cash equivalents at the beginning of the year		15,329,851	3,470,554
Cash and cash equivalents at the end of the year	**5**	**23,642,513**	**15,329,850**

ACCOUNTING POLICIES

1 PRESENTATION OF FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Public Finance Management Act (Act No. 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand (ZAR).

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, is disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in Note 2- changes in accounting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates that may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flow from a financial asset.

Impairment testing

The recoverable amounts of cash-generating assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumptions will change which may then influence our estimations and may then require a material adjustment to the carrying value of assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for individual assets that have been identified to be impaired. Expected future cash flows used to determine the value in use of intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including projected future revenue forecasts, together with economic factors such as inflation, exchange rates and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 1.11.

ACCOUNTING POLICIES (continued)

1.1 Significant judgements and sources of estimation uncertainty (continued)

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Useful lives and residual value of assets

As described in the accounting policy below, the company reviews the estimated useful lives of property, plant and equipment and Intangible assets at the end of each reporting period.

Allowance for doubtful debts

On debtors, an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Intangible assets

Internally developed intangible assets are annually tested for impairment by using various valuation techniques. Estimates and assumptions are used in accounting for future cash flows that are based on the current environment and market conditions existing at the end of each reporting period. It is reasonably possible that the key assumptions will change, which may then impact our estimations and may then require a material adjustment to the carrying value of the intangible assets.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- » it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- » the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

ACCOUNTING POLICIES (continued)

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Furniture and fixtures	3 -6 years
IT equipment	3 -5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is the shorter
Security Equipment	5 years
Generators	10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined by comparing the proceeds with the carrying amount and is included in surplus or deficit when the item is derecognised.

1.3 Intangible assets

An asset is identifiable if it either:

» is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
» arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:

» it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
» the cost or fair value of the asset can be measured reliably.

An intangible asset is initially recognised at cost and subsequently carried at cost less any accumulated amortisation and any impairment losses.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

ACCOUNTING POLICIES (continued)

1.3 Intangible assets (continued)

Development cost is recognised as an asset in the period in which they are incurred when all the following criteria are met:

- » it is technically feasible to complete the asset so that it will be available for use or sale;
- » there is an intention to complete and use or sell it;
- » there is an ability to use or sell it;
- » it will generate probable future economic benefits or service potential;
- » there are available technical, financial and other resources to complete the development and to use or sell the asset;
- » the expenditure attributable to the asset during its development can be measured reliably;

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets, amortisation is provided on a straight-line basis over their estimated useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Intellectual property and other rights	10 years
IT software	5 years

Intangible assets are derecognised:

- » on disposal; or
- » when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or loss when the asset is derecognised.

1.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

ACCOUNTING POLICIES (continued)

1.4 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a contractual right to:
    - receive cash or another financial asset from another entity; or
    - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are instruments designated at fair value.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

ACCOUNTING POLICIES (continued)

1.4 Financial instruments (continued)

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- financial instruments at fair value;
- financial instruments at amortised cost;

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a recognised valuation technique. The objective of using a recognised valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Reclassification

The entity does not have any financial instruments that are subject to reclassification.

Gains and losses

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or loss when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

ACCOUNTING POLICIES (continued)

1.4 Financial instruments (continued)

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced directly, or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly, or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or loss.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

» the contractual rights to the cash flows from the financial asset expire, are settled or waived;

» the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished.

Presentation

Losses and gains or interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or loss.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods that are unpaid, are recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

ACCOUNTING POLICIES (continued)

1.5 Tax (continued)

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither the accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available, against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or loss for the period.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Impairment of cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

ACCOUNTING POLICIES (continued)

1.7 Impairment of cash-generating assets (continued)

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the entity:

» bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

» bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

» estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or loss.

ACCOUNTING POLICIES (continued)

1.8 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the entity.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. Different intangible assets may be tested for impairment at different times. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or loss.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares as well as the loan received from the shareholder are classified as equity. The shareholder loan is subordinated to the interest of other creditors.

ACCOUNTING POLICIES (continued)

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

Where employee benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Short-term employee benefits

The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted.

Provision for employees' entitlement to annual leave represents the present obligation that the entity has to pay as a result of employees services provided to the reporting date. The provision has been calculated at undiscounted amounts based on salary rates effective on the reporting date.

When an employee has rendered services to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus or performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Payments to a defined contribution retirement benefit plan are charged as an expense as they fall due. The entity has no legal or constructive obligation to pay future benefits which responsibility vests with the contributing retirement benefit schemes.

ACCOUNTING POLICIES (continued)

1.11 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

All provisions of the entity are short-term in nature and the effect of discounting is immaterial.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised but are disclosed in note 33 of these financial statements.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion can be measured reliably; and
- the cost incurred for the transactions and the cost to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified period, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

ACCOUNTING POLICIES (Continued)

1.13 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.14 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount to the spot exchange rate at the date of the transaction.

At each reporting date foreign currency, monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items from initial recognition are recognised in surplus or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICY

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) on a basis consistent with the prior year except for the revised accounting policy based on the following newly adopted standards. The changes in accounting policy do not have a material impact on the financial statements of the entity.

- GRAP 25: Employee benefits
- GRAP 31: Intangible assets
- IGRAP 16: Intangible asset website costs

3 NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25: Employee benefits	01 April 2013	The adoption did not result in any material changes to the accounting policy or the treatment of employee benefits.
GRAP 31: Intangible Assets	01 April 2013	The adoption did not impact the results of the entity.
IGRAP 16: Intangible assets website costs	01 April 2013	The adoption did not impact the results of the entity.

3.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 April 2014	It is unlikely that the standard will have a material impact on the entity's annual financial statements.

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2014 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 105: Transfers of functions between entities under common control	01 April 2014	It is not expected that the adoption of the standard will result in a material change in accounting treatment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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4 TRADE AND OTHER RECEIVABLES	2014	2013
Trade debtors	9,146,862	9,658,923
Prepayments	971,268	-
Deposits	15,305	15,305
Investment receivable	-	5,543,963
	10,133,435	**15,218,191**

None of the payment terms of trade and other receivables, that are fully performing have been renegotiated in the last year.

Fair value of trade and other receivables

	10,133,435	15,218,191
Trade and other receivables		

Trade and other receivables are carried at original invoice amounts, which approximate fair value, less provision for impairment.

Trade and other receivables past due but not impaired

Trade and other receivables past due are not considered to be impaired unless there is a clear indication that the amounts should be considered non-recoverable.
At 31 March 2014, R 2,800,773 (2013: R 8,936,485) were past due but not impaired.

The aging of amounts past due but not impaired is as follows:

	5,078	6,808,810
1 month past due	2,435,022	1,870,245
2 months past due	360,673	257,430
3 months or more past due		

Reconciliation of provision for impairment of trade and other receivables	-	2,284,974
Opening balance	-	(2,284,974)
Unused amounts reversed	-	-

The doubtful debt provision created in 2012 was reversed in 2013. All amounts were recovered.

Amounts charged to the provision for doubtful debt allowance account are written off when there is no expectation of recovering additional cash.

All trade and other receivables are considered recoverable and no provision for impairment was recognised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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5 CASH AND CASH EQUIVALENTS

	2014	2013
Cash and cash equivalents consist of:		
Cash on hand	5,758	3,607
Bank balances	23,636,756	15,326,244
	23,642,514	**15,329,851**

Credit quality of cash at bank and short-term deposits, excluding cash on hand

Bank balances comprise cash and short-term investment that are held with registered banking institutions. The carrying amount of these assets approximates their fair value.

6 PROPERTY, PLANT AND EQUIPMENT

	2014			2013		
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated depreciation	Carrying Value
Furniture and fixtures	761,690	(409,506)	352,184	673,305	(307,781)	365,524
Office equipment - leased	153,379	(25,563)	127,816	215,269	(194,639)	20,630
IT equipment	8,182,584	(5,995,503)	2,187,081	6,707,223	(5,284,773)	1,422,450
Leasehold improvements	4,563,086	(3,732,654)	830,432	4,528,991	(2,749,234)	1,779,757
Generators	203,544	(158,837)	44,707	203,544	(117,401)	86,143
Security Equipment	20,108	(8,707)	11,401	17,874	(4,981)	12,893
Total	**13,884,391**	**(10,330,770)**	**3,553,621**	**12,346,206**	**(8,658,809)**	**3,687,397**

Reconciliation of property, plant and equipment - 2014	Opening balance	Additions	Depreciation	Impairment on disposal	Total
Furniture and fixtures	365,524	117,923	(122,020)	(9,243)	352,184
Office equipment - leased	20,630	153,376	(46,190)	-	127,816
IT equipment	1,422,450	1,501,574	(730,510)	(6,433)	2,187,081
Leasehold improvements	1,779,757	34,095	(983,420)	-	830,432
Generators	86,143	-	(41,436)	-	44,707
Security Equipment	12,893	2,234	(3,726)	-	11,401
	3,687,397	**1,809,202**	**(1,927,302)**	**(15,676)**	**3,553,621**

Reconciliation of property, plant and equipment - 2013	Opening balance	Additions	Depreciation	Impairment loss	Total
Furniture and fixtures	466,637	16,304	(116,558)	(859)	365,524
Office equipment - leased	92,386	-	(71,756)	-	20,630
IT equipment	2,342,950	646,570	(1,567,070)	-	1,422,450
Leasehold improvements	2,750,534	-	(970,777)	-	1,779,757
Generators	127,578	-	(41,435)	-	86,143
Security Equipment	16,289	-	(3,396)	-	12,893
	5,796,374	**662,874**	**(2,770,992)**	**(859)**	**3,687,397**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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6 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

During the financial year, it was determined that no revision is required to the useful lives and residual values of property, plant and equipment based on the forecast commercial and economic realities and through benchmarking of accounting treatments in the industry.

It is the company's policy to depreciate generators, disclosed under plant and machinery, over a period of 10 years from new. The generator has accordingly been depreciated over its remaining useful life of 56 months since its transfer from the shareholder.

Assets subject to finance lease (Net carrying amount)

	2014	2013
Office equipment	127,816	20,630

Other information

Property, plant and equipment fully depreciated and still in use (Residual value)		
Property, plant and equipment	409,427	365,312

Fully depreciated items still in use will systematically be replaced.

7 INTANGIBLE ASSETS

	2014			2013		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying Value
Intellectual property and other rights	73,582,623	(4,569,244)	69,013,379	73,582,623	-	73,582,623
IT software	1,887,310	(556,737)	1,330,573	867,299	(282,007)	585,292
Total	**75,469,933**	**(5,125,981)**	**70,343,952**	**74,449,922**	**(282,007)**	**74,167,915**

Reconciliation of intangible assets - 2014	Opening balance	Additions	Amortisation	Total
Intellectual property and other rights	73,582,623	-	(4,569,244)	69,013,3791
IT software	585,292	1,020,010	(274,729)	,330,573
	74,167,915	**1,020,010**	**(4,843,973)**	**70,343,952**

Reconciliation of intangible assets - 2013	Opening balance	Additions	Amortisation	Total
Intellectual property and other rights	73,582,623	-	-	73,582,623
IT software	467,951	263,840	(146,499)	585,292
	74,050,574	**263,840**	**(146,499)**	**74,167,915**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

7 INTANGIBLE ASSETS (continued)

Details of impairment test

An impairment test was performed to determine whether the intangible asset's value should be impaired. The effective date of the valuation was 31 March 2014. The valuation was performed by the independent valuator, KPMG. KPMG is not connected to the entity and has recent experience in valuing similar assets.

The valuation technique adopted in undertaking this valuation has been the Relief from Royalty method.

The Relief from Royalty method estimates the cost of licensing the acquired intangible asset from an independent third party using a royalty rate. Since the company owns the intangible assets, it is relieved from making royalty payments. The resulting cash flow savings attributed to the intangible assets are estimated over the intangible asset's remaining useful life and discounted by the calculated weighted average cost of capital to present value.

This approach focuses on the income producing capability of the intangible asset that best represents the present value of the future economic benefits expected to be derived from it. It reflects the present value of the operating cash flows generated by the Intellectual Property (IP) after taking into account the cost to realise the revenue, the relative risk of the revenue streams and an appropriate discount rate to reflect the time value of invested capital. The most significant assumption by management in determining the cash flow was the addition of two new customers over the next ten years. This projection was based on our best estimate considering current interest by various parties. The estimated income from new customers was minimised to ensure our projection remained conservative.

The following key inputs were used:

IP valuation 2015 to 2024 forecast.	
Royalty rate	17.00%
Calculated Weighted Average Cost of Capital	20.30%
Tax rate	28.00%

The impairment test did not indicate an impairment of the Intellectual Property.

Useful life

It was determined that no revision is required to the useful lives and residual values of IT Software based on the forecast commercial and economic realities and through benchmarking of accounting treatments in the industry.

The IP was not previously amortised because the asset was not yet fully available for use. The IP became fully available for use in August 2013 and amortisation started. Management assessed the useful life of the IP, based on the estimated forecast commercial and economic realities, as 10 years. Refer to reconciliation above for amount.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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8 DEFERRED TAX

	2014	2013
Deferred tax asset		
Deferred tax asset	1,147,452	1,020,643

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Reconciliation of deferred tax asset

	2014	2013
At beginning of year	1,020,643	1,525,576
Temporary difference on prepayments	(271,955)	-
(Reversing) / Originating temporary difference on tangible fixed assets	(184,040)	64,649
Movement in provision and accruals	639,502	(39,744)
Reversing temporary difference on finance lease	(15,979)	(25,014)
Reversing temporary difference on operating lease	(40,719)	(5,337)
Reversing temporary differences on doubtful allowance	-	(499,487)
	1,147,452	**1,020,643**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

» the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and

» the entity has suffered a loss in either the current or the preceding period in the tax jurisdiction to which the deferred tax asset relates.

9 FINANCE LEASE OBLIGATION

Minimum lease payments due	2014	2013
within one year	70,042	33,396
in second to fifth year inclusive	105,062	-
	175,104	33,396
Less: future finance charges	(24,857)	(932)
Present value of minimum lease payments	**150,247**	**32,464**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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9 FINANCE LEASE OBLIGATION (continued)

	2014	2013
Present value of minimum lease payments due		
Within one year	54,295	32,464
In second to fifth year inclusive	95,952	-
	150,247	**32,464**
Non-current liabilities	95,952	-
Current liabilities	54,295	32,464
	150,247	**32,464**

Certain photocopiers were capitalised and the corresponding finance lease liability raised. The leases are repayable in 36 monthly instalments. The lease term is 3 years and the average effective borrowing rate was 9% (2013: 9%). Total payments of R 68 568 were made during the year for the three machines. Refer note 6 - Office equipment-leased. The final payment will be made in September 2016.

10 COMMITMENTS

Authorised capital expenditure

	2014	2013
Already contracted for but not provided for		
Property, plant and equipment	798,609	-
Intangible assets	111,549	-
	910,158	-

Computer equipment and software were ordered through a tender process prior to year-end. The order has been placed but payment and delivery only occurred subsequent to year-end.

Operating leases - as lessee (expense)

	2014	2013
Minimum lease payments due		
Within one year	1,438,092	1,613,049
In second to fifth year inclusive	-	1,438,092
	1,438,092	**3,051,141**

Operating lease payments represent rentals payable by the entity for its office premises. Refer note 11 for more detail.

11 OPERATING LEASE

	2014	2013
Non-current liabilities	-	(215,073)
Current liabilities	(215,073)	(145,427)
	(215,073)	**(360,500)**

Operating lease represents rentals payable by the entity for its office premises. The operating lease is for a period of 5 years and expires 31 January 2015 with an option to renew for a further 3 years. The lease agreement escalates annually with 8.5%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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12 TRADE AND OTHER PAYABLES

	2014	2013
Trade payables	1,505,148	829,151
Accrued leave pay	1,685,260	1,417,120
PAYE payable	925,873	794,170
Accruals	32,782	151,225
Salary related accruals	71,707	322,311
	4,220,770	**3,513,977**

Trade and other payables are carried at original invoice amounts, which approximate fair value.

13 VAT (PAYABLE)/RECEIVABLE

	2014	2013
VAT (payable) / receivable	**(414,064)**	**121,343**

14 PROVISIONS

Reconciliation of provisions - 2014	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	1,320,000	3,372,221	(614,341)	(705,659)	3,372,221

Reconciliation of provisions - 2013	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	1,504,442	1,096,421	(1,280,863)	-	1,320,000

Performance bonuses represent the estimated obligation for the current year.

15 SHARE CAPITAL

Authorised

	2014	2013
1000 Ordinary shares of R 1 each	1,000	1,000

Reconciliation of number of shares issued:

	2014	2013
Reported as at the beginning of the financial year	1	1

999 Un-issued ordinary shares are under the control of the members in terms of a resolution of board passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

Issued

	2014	2013
Ordinary	1	1

Share capital is fully paid and has no restrictions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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16 SHAREHOLDER'S LOAN

The loan is unsecured, bears no interest and has no fixed date of repayment.

The loan has been subordinated in favour of other creditors until the assets of the company, fairly valued, exceed its liabilities. The capital structure will be reviewed in the year ahead after which the need for the subordination agreement will be reconsidered.

	2014	2013
Loan at the beginning of the year	102,711,836	102,711,836
Repayment of shareholders loan	(10,000,000)	-
Shareholder's loan recognised in equity	**92,711,836**	**102,711,836**

17 FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	At fair value	At amortised cost	Total
2014			
Trade and other receivables	-	10,133,435	10,133,435
Cash and cash equivalents	23,642,514	-	23,642,514
Current tax receivable	-	3,582,235	3,582,235
	23,642,514	**13,715,670**	**37,358,184**

	At fair value	At amortised cost	Total
2013			
Trade and other receivables	-	15,218,191	15,218,191
Cash and cash equivalents	15,329,851	-	15,329,851
Current tax receivable	-	2,300,245	2,300,245
Vat receivable	-	121,343	121,343
	15,329,851	**17,639,779**	**32,969,630**

18 FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	At amortised cost	Total
2014		
Operating lease liability	215,073	215,073
Trade and other payables	4,220,770	4,220,770
Vat payable	414,064	414,064
Finance lease obligation	150,247	150,247
Provisions	3,372,221	3,372,221
	8,372,375	**8,372,375**

	At amortised cost	Total
2013		
Operating lease liability	145,427	145,427
Trade and other payables	3,513,977	3,513,977
Finance lease obligation	32,464	32,464
Provisions	1,320,000	1,320,000
	5,011,868	**5,011,868**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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19 EMPLOYEE BENEFIT OBLIGATIONS

	2014	2013

Defined contribution plan

It is the policy of the entity to provide retirement benefits to all its employees. Entitlement to retirement benefits is governed by the rules of the Finsolvent Provident Fund, which is a defined contribution retirement fund. The entity has no legal or constructive obligation to pay for future benefits. This responsibility vests with Finsolvent Provident Fund.

The entity is under no obligation to cover any unfunded benefits.	2,444,430	2,305,840

The total economic entity contribution to such schemes

20 REVENUE

Rendering of services	72,992,515	79,920,167
Settlement fee income	-	7,653,556
Profit from exchange transactions	260,403	1,116,750
Other income	70	-
Interest received	1,073,634	572,836
	74,326,622	**89,263,309**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	72,992,515	79,920,167
Settlement fee Income	-	7,653,556
Profit from exchange transactions	260,403	1,116,750
Other income	70	-
	74,326,622	**89,263,309**

Settlement fee income

Settlement fee income comprised income due to new agreements with a client, based on the agreed value provided to them in prior years.

21 FINANCE COSTS

Finance leases	11,499	11,313

22 OPERATING SURPLUS

Operating surplus for the year is stated after accounting for the following:

Operating lease charges

Premises Contractual amounts	1,485,501	1,467,622
Impairment on property, plant and equipment	15,679	859
Amortisation of intangible assets	4,843,974	146,499
Depreciation on property, plant and equipment	1,927,302	2,770,993
Employee costs	48,187,997	52,098,588

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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23 TAXATION

Major components of the Tax Expense

	2014	2013
Current		
Local income tax - current period	2,648,733	6,718,496
Local income tax - recognised in current tax for prior periods	1,059,611	-
	3,708,344	**6,718,496**
Deferred		
Deferred tax movement current year	(126,809)	504,933
	3,581,535	**7,223,429**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense:

	2014	2013
Accounting surplus	10,993,723	30,008,275
Tax at the applicable tax rate of 28% (2013: 28%)	3,078,242	8,402,318
Tax effect of adjustments on taxable income		
Originating temporary differences	126,809	(504,934)
Permanent differences	(556,319)	221,700
Utilised prior year unrecognised tax losses	-	(1,400,588)
Under / (over) provision of tax in the previous year	1,059,611	-
	3,708,343	**6,718,496**

24 AUDITORS' REMUNERATION

	2014	2013
External Audit: Fees	501,350	565,932
Subsistence and Travel: External Audit	188,717	112,549
Internal Audit: Fees	271,852	-
Subsistence and Travel: Internal Audit	53,619	-
	1,015,538	**678,481**

Audit fees are recognised when invoiced. Interfront is making use of the internal audit of SARS, its parent company. The service was invoiced at cost during the 2014 financial year. This practice will continue into the future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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25 CASH GENERATED FROM OPERATIONS

	2014	2013
Surplus	7,412,188	22,784,848
Adjustments for:		
Depreciation and amortisation	6,771,276	2,917,492
Finance costs - Finance leases	11,499	11,313
Impairment losses on scrapped assets	15,679	859
Doubtful debts	-	(2,284,974)
Movements in operating lease assets and liabilities	(145,427)	(19,059)
Movements in provisions	2,052,221	(184,442)
Movement in tax receivable and payable	(1,281,990)	(2,300,245)
Annual charge for deferred tax	(126,809)	504,933
Changes in working capital:		
Trade and other receivables	5,084,756	(7,686,467)
Provision for doubtful debts	-	2,284,974
Trade and other payables	706,790	(2,178,048)
VAT	535,407	(964,460)
	21,035,590	**12,886,724**

26 TAX PAID

	2014	2013
Balance at beginning of the year	2,300,245	-
Current tax for the year recognised in surplus or loss	(3,708,344)	(6,718,496)
Balance at end of the year	(3,582,235)	(2,300,245)
	(4,990,334)	**(9,018,741)**

Tax credits arise from estimations made for the second provisional payment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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27 RELATED PARTIES

Relationships

Controlling entity	South African Revenue Service
Key management who have significant influence in companies which were transacted with (prior year)	J.M. Robertson
Members of key management	M.A. Enus-Brey - Chairman of the Board B.J.S. Hore - Non-Executive Director J.J. Louw - Non-Executive Director H.G.N. Ravele - Non-Executive Director R.M. Head - Non-Executive Director G.O. Randall - Managing Director J.M. Robertson - Director of Operations L.L. Janse van Rensburg - Financial Director
Members of key management who are employed by the shareholder	B.J.S. Hore J.J. Louw H.G.N. Ravele R.M. Head

Related party balances

	2014	2013
Loan account - Owing to related parties		
South African Revenue Service	92,711,836	102,711,836
Trade Receivables		
South African Revenue Service	6,691,259	7,788,678
Trade Payables		
Tsohle Business Solutions (Pty) Ltd	-	7,741
South African Revenue Service	202,779	327,143

Related party transactions

	2014	2013
Rendering of services to related parties		
South African Revenue Service	64,513,761	72,152,042
Tatis Africa (Pty) Ltd	-	1,322,325
Procurement of services from related parties		
Tsohle Business Solutions (Pty) Ltd	-	4,890,848
Tatis Africa (Pty) Ltd	-	1,325,528
Compensation to close family members of key management		
Short term employee benefits	-	129,626

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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27 RELATED PARTIES (continued)

Interfront provides SARS with software development and support services. The value of the services was determined on a time and material basis in terms of the joint master services agreement.

In the ordinary course of business Interfront enters into various sales and purchase transactions on an arm's length basis at market rates with other state controlled entities (eg. Telkom). These transactions do not result in economic dependency nor does Interfront have the ability to exercise significant influence over them. Related Party Disclosure in these cases is not required in terms of IPSAS 20.

SARS seconded an employee during the financial year to Interfront, for which SARS carried the full cost.

Refer to note 28, members and prescribed officer emoluments for disclosure of transactions with directors.

28 DIRECTORS' EMOLUMENTS

Executive

2014	Salary	Bonus	Total
J.M. Robertson	1,897,541	117,813	2,015,354
G.O. Randall	1,792,534	28,262	1,820,7969
L.L. Janse van Rensburg	928,736	14,700	943,436
	4,618,811	**160,775**	**4,779,586**

2013	Salary	Bonus	Total
J.M. Robertson	1,764,000	617,400	2,381,400
G. O. Randall	1,695,720	559,588	2,255,308
L.L. Janse van Rensburg	861,000	220,000	1,081,000
	4,320,720	**1,396,988**	**5,717,708**

Non-executive

2014	Board fees	Committee fees	Total
Mustaq Enus-Brey	18,907	3,629	22,536

2013	Board fees	Committee fees	Total
Mustaq Enus-Brey	16,087	3,820	19,907

In the prior year a provision was raised of R 83 124 to provide for remuneration for the chair of the board for the 2012/13 year as well as previous years. The actual amount paid for all years before 2014 is R 45 272.

29 RESTATEMENT / RECLASSIFICATION OF PRIOR PERIOD FIGURES

To align our accounting treatment with that of the shareholders the following changes were made:

Some expenditure previously classified as administration, such as recruitment fees, is now classified as employee cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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29 RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES (continued)

The above resulted in adjustments as follows:

Statement of Financial Performance	2014	2013
Employee cost	-	425,708
Administrative Expenses	-	(425,708)

30 RISK MANAGEMENT

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 9, 10 and 12 cash and cash equivalents disclosed in note 5 and equity as disclosed in the statement of financial position.

The entity monitors capital based on the debt: equity ratio.

The entity's strategy is to work towards a debt: equity ratio of less than 1 to 1. Currently the entity is geared mainly with a shareholders loan. To mitigate the risk associated with this type of financing the loan is interest free, has no fixed term of repayment and is subordinated to other creditors.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The entity's activities expose it to a variety of financial risks, credit risk and liquidity risk.

Risk management is carried out by the board. The board provides written policies for overall risk management, as well as a review covering specific areas.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

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30 RISK MANAGEMENT (continued)

The table below analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

At 31 March 2014	1 year	1 - 2 years	2 - 5 years	No fixed date of repayment
Loan from shareholder	-	-	-	92,711,836
Trade and other payables	4,220,769	-	-	-
Finance lease obligation	54,295	95,952	-	-
Operating lease contractual amounts	1,438,092	-	-	-

At 31 March 2013	1 year	1 - 2 years	2 - 5 years	No fixed date of repayment
Loan from shareholder	-	-	-	102,711,836
Trade and other payables	3,513,975	-	-	-
Finance lease obligation	32,464	-	-	-
Operating lease contractual amounts	1,613,049	1,438,092		-

Interest rate risk

As the entity has no significant interest-bearing assets or liabilities, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Cash flow interest rate risk

Financial instrument	Current market interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	No fixed term of repayment
Trade and other receivables - normal credit terms	9.00 %	10,133,435	-	-	-	-
Cash in current banking institutions	4.50 %	23,642,514	-	-	-	-
Trade and other payables - normal credit terms	9.00 %	(4,220,769)	-	-	-	-
Finance lease obligation	9.00 %	(54,295)	(95,952)	-	-	-
Operating lease obligation	9.00 %	(1,438,092)	-	-	-	-
Loan from shareholder	0.00%	-	-	-	-	(92,711,836)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Figures in Rand

30 RISK MANAGEMENT (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing.

Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the entity assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2014	2013
Cash and cash equivalents	23,642,514	15,329,851
Trade and other receivables	10,133,435	15,218,191

Foreign exchange risk

The entity provides service to one international customer and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets, liabilities and net investments in foreign operations.

The entity does not currently hedge foreign exchange fluctuations.

Foreign currency exposure at statement of financial position date

Current assets	2014	2013
Trade debtors, EURO 167 428 (2013 : EURO 158400) receivable 31 March 2014	2,435,023	1,870,245
Prepayments, AUD 2632	25,719	-

Exchange rates used for conversion of foreign items were:

Euro	14.5437	11.8071
AUD	9.7726	-

31 GOING CONCERN

The annual financial statements have been prepared based on accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. A major portion of revenue is currently attributable to a single customer, the shareholder. This is expected to continue in the near term.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

32 EVENTS AFTER THE REPORTING DATE

No events after the reporting date have been identified that warrant adjustment to the financial statements. Interfront is not aware of any matters or circumstances arising since the end of the financial period that can have a materially impact on the financial state of the entity.

33 CONTINGENCIES

Certain employees have contended, via an attorney, for a claim for a three-year retention bonus which claim they allege arose prior to their transfer to Interfront in and during 2010. Interfront have obtained independent legal advice and have been advised that the claim is without merit and should be contested. It is currently estimated that there will be no financial impact on the company.

34 RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

SARS as principal of its wholly owned subsidiary incorporated Interfront in its parliamentary and statutory accounting processes. Interfront is included inter alia in the SARS strategic plan, budget, monthly and annual reporting, as well as the consolidated annual financial statements. Interfront functions primarily as a service provider supporting customs modernisation. Within these overall objectives, Interfront is governed by its board under close scrutiny of SARS. Interfront is thus excluded from the detailed reporting requirements based on paragraph 3 of GRAP 24.