2015 16

ANNUAL REPORT

interfront

Smart Systems. Better Borders.

2015 | 16

ANNUAL REPORT

interfront

Smart Systems. Better Borders.

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PART A

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

Postal Address

PostNet Suite # 10
Private Bag X15
Somerset West, 7129

Contact

Tel: 021 840 3400
Fax: 021 840 3401
Email: secretary@interfront.co.za
Website address: www.interfront.co.za

Bankers: ABSA Bank Limited

Company Secretary

L. L. Janse van Rensburg
Gleneagles Building, Somerset Links Office Park
De Beers Avenue
Somerset West, 7130

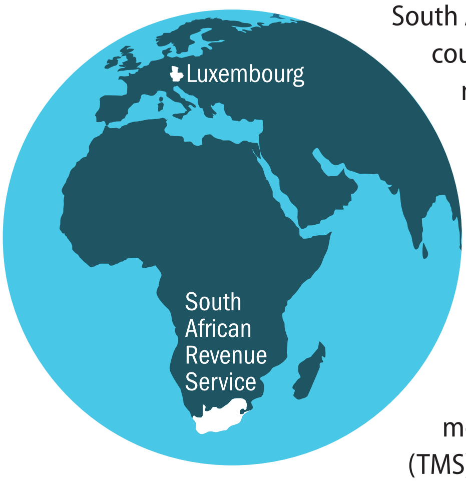
2 ABOUT US

2.1 Who we are

Interfront is a wholly owned subsidiary of SARS through which its parliamentary accountability is exercised. However, Interfront's business operations function independently through its own Board of Directors and it strives to be a fully sustainable, eco-friendly body. Interfront is developing customs and border management information technology (IT) solutions for SARS, supporting the systems it has in operation with clients and making its products available to the global market.

2.2 Our Clients

South African Revenue Service (SARS)



South Africa is a leading role player on the African continent. Like many other countries on the African continent though, it too faces customs and border management challenges such as increasing trade volumes, poorly developed infrastructure or a lack thereof and the threat of illicit trade.

In a strategic move toward addressing trade challenges, SARS embarked on a modernisation journey. Part of this journey consists of the development of the Interfront Customs and Border Management Solution (iCBS). The iCBS has already replaced several key legacy systems, one of which served South Africa for more than 30 years. At this point it includes a Goods Declaration Processing (DPR) module, Manifest Processing System (MPR), Tariff Management System (TMS), Customs Duty Calculator (CDC), as well as the License and Certificate Management (LCM) modules. The modernised system is also supported by a suite of specialised systems support management tools. Significant milestones were reached during the year under review on the development of Phases 1 and 2 of the New Customs Acts Programme (NCAP).

Administration des Douanes et Accises Luxembourg (ADA)

Luxembourg, although being a small landlocked country, is one of the most developed countries in the world. It has relatively large volumes of international trade from and to neighbouring countries such as the Netherlands, France and Germany, as well as elsewhere in the European Union (EU).

Customs processes in the EU are complex, structured and highly regulated. They contain numerous centrally managed systems that need to communicate with national systems.

Interfront provided ADA with a core declaration processing customs solution that supports the flexibility required to adapt to regular amendments to policies. The solution works seamlessly with newly added systems such as the New Computerised Transit System, Import Control System (ICS) and Excise Movement Control System (EMCS). Interfront recently performed an upgrade of the ADA system to make it compatible with the latest versions of some of the solution's technical components.

VISION

The best partner in border solutions

MISSION

We deliver smart solutions, creating better borders

VALUES

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; being supportive ○ acting in the best interests 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

2.3 Strategic Objectives

Our strategic objectives are in turn supported by fourteen activities to measure our performance against these predetermined objectives.

Refer to Part B for a report on our performance against pre-determined objectives.

In implementing our strategy we recognise that there are various risks associated with our business. Key amongst these are:

- Loss of skills/key staff
- Change in business model from time and material to fixed price
- Progress towards representation in accordance with the Employment Equity (EE) Plan
- Dependency on single client

Refer to Part C for further details regarding our key risks and how we have mitigated them.

2.4 Performance and Organisational Highlights

SIGNIFICANT MILESTONES REACHED IN PHASES 1 AND 2 OF THE NEW CUSTOMS ACTS PROGRAMME IN SARS

EXTENDING OUR FOOTPRINT BY ESTABLISHING A NEW OFFICE IN PRETORIA

UPGRADING OF THE ADA SYSTEM IN LUXEMBOURG

24 HOURS A DAY × 7 DAYS A WEEK × 365 DAYS A YEAR

24 × 7 × 365 MAINTENANCE AND SUPPORT SERVICES FOR TWO NATIONAL CUSTOMS SYSTEMS

REPLACEMENT OF THE LEGACY MANIFEST PROCESSING SYSTEM IN SARS

COMPLETION OF ADDITIONAL FUNCTIONALITY TO MANAGE PROVISIONAL PAYMENTS

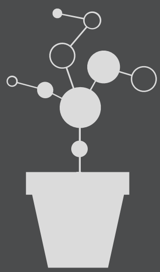
REVENUE INCREASED BY 24.6 %

RECOVERABILITY INCREASED TO 78.4%

STAFF TURNOVER REDUCED TO 12.3%

INCREASE IN EE REPRESENTATION

It is envisaged that Interfront will continue to grow into a centre of excellence, developing IT skills that contribute to empowerment within its own business, SARS and the wider public sector.



Interfront was incorporated primarily to develop and support customs and border management solutions for SARS.

2.5 Strategic Overview

Interfront supports the SARS customs modernisation initiative through the economic development and support of robust IT systems.

It is foreseen that Interfront will continue to associate more closely with SARS. The company will maintain a strong IT development capacity as the preferential supplier to SARS, augmenting this capacity with contracted resources where necessary. It is envisaged that Interfront will continue to grow into a centre of excellence, developing IT skills that contribute to empowerment within its own business, SARS and the wider public sector. In doing so, Interfront will continue to provide ongoing support and maintenance, increasing its support capability proportionately as further systems are delivered until it has been doubled within the next two to three years.

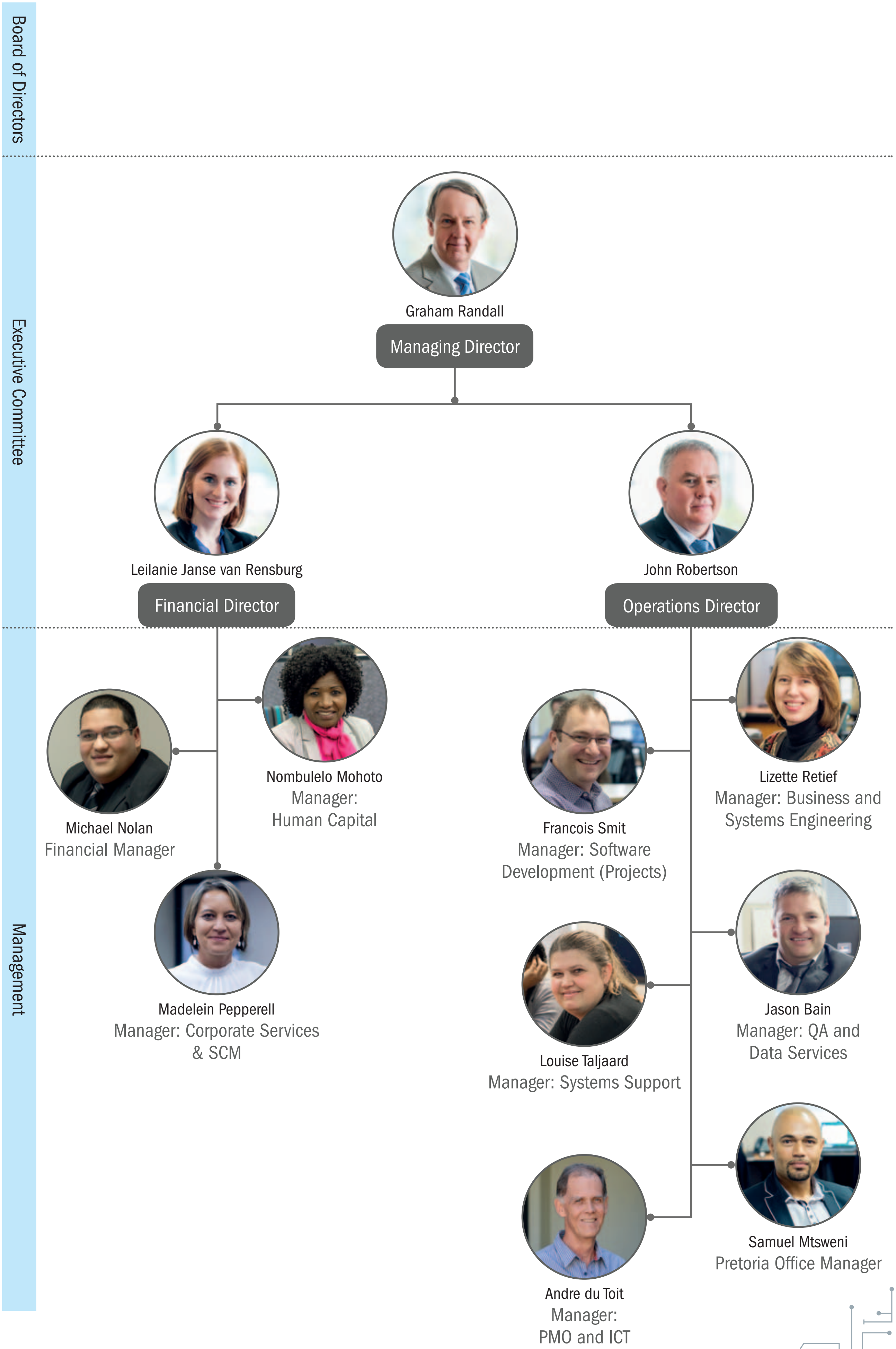
2.6 Mandates

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 Public Finance Management Act, No. 1 of 1999 (PFMA).

As a state-owned company, Interfront is regulated by the PFMA, the Companies Act, No. 71 of 2008 (Companies Act) and Treasury Regulations.

Interfront was incorporated primarily to develop and support customs and border management solutions for SARS.

3 ORGANISATIONAL STRUCTURE



Mustaq Enus-Brey
Interfront
31 July 2016

4 FOREWORD BY THE CHAIRPERSON

I have great pleasure in presenting this annual report on the work done by Interfront in the 2015/16 fiscal year.

Interfront is a wholly owned subsidiary of the South African Revenue Service, tasked with developing the customs IT modernisation programme in SARS, providing support for systems in production, building a core capability of IT expertise and responding to opportunities in other national customs agencies.

The 2015/16 fiscal year has been both stable and successful as Interfront progresses with the development of the second phase of the iCBS. The iCBS will provide a complete customs solution for tracking cargo and goods from source to final destination. Customs agencies globally are following this path and South Africa is amongst the few who are taking the lead.

Robust product development forms the cornerstone of the Interfront strategy. The company is closely aligned to the goals and policies of its parent. The results of its operations are consolidated into the SARS Annual Report and Annual Financial Statements and are included in the concomitant accountability process.

The 2015/16 fiscal year has seen a moderate strengthening of the organisation's operational resources, an intensive review of the technical strategy and careful planning of the various project phases. The financial results continue to be stable and strong governance is in place.

The Board has fulfilled its role as the accounting authority through Board meetings and the work done by its subcommittees. I am confident that the company is well run and that sound accountability arrangements are in place for its stewardship.

On behalf of myself and the Board, I would like to record my thanks to the shareholder and my appreciation to the management and staff of Interfront for the dedication and commitment they have shown over the year.

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

5 OVERVIEW BY THE MANAGING DIRECTOR

This annual report is intended to provide stakeholders with a succinct view on the performance and results of Interfront for the 2015/16 fiscal year, as well as the sustainability of its operations.

Company resources are vested predominantly in the intellectual capital of Interfront's people, in the company's past investment in intellectual property and in the investment by the SARS, as its parent, in the ongoing development of the iCBS. As software systems are delivered into production, the proportionate revenue contribution attributable to software support increases.

The strategic thought process has matured and been tempered through our engagement with a wide spectrum of role players, both globally and locally. Interfront has been successful during the year in pursuing its core business of building modern customs IT solutions for SARS. We have expanded the operations staff and invested in ongoing staff development. Interfront continues to build a centre of excellence in the IT software development domain and this will be further pursued as we move forward.

Following the completion of the first phase of the iCBS, which consisted mainly of declaration processing, the operational focus has now moved to manifest processing, enhancements to the Declaration Processing System (DPS) and the implementation of the Customs Control Act (CCA) and the Customs Duty Act (CDA), referred to jointly as the New Customs Acts Programme (NCAP).

Typically, the iCBS would be an excellent IT solution for state customs authorities which are, in turn, subject to their respective national governance arrangements. Promotional and branding experience has indicated that most governments expect comprehensive finance systems that are, aligned to their customs solution and require fixed pricing. This introduces business risk for the supplier, which is incompatible with the means available to a small public entity such as Interfront. The risk involved would need to be carried by a third party, which would need to assume the role of overall supplier and systems integrator. The extent of the risk is mitigated as the product itself matures.

Performance during the period under review has been commendable and is reported on in some detail in Part B of this annual report. Our effectiveness or outcomes, are deliverables in terms of the greater SARS modernisation project and are measured according to time, cost and quality at company level. Efficiency relates to the input/output ratio of resources and is reflected in our recovery rate, while economy reflects the use of our resources and is measured in our financial results. Performance in all three areas has been strong and has shown continued improvement on the prior year.

The Interfront Board is the accounting authority and has provided regular guidance. The company will focus in the short to medium terms on the completion of further modernisation projects, accompanied by effective operational support for the systems being put into operation by our clients. Lesser importance will be attached to expanding the company's footprint, while talent investment will continue to strengthen the entity as a centre of excellence.

We look forward as a team to supporting SARS and South Africa in continuing to improve revenue collections and controls at our borders and within them.

Graham Randall
Interfront
31 July 2016

6 STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the Annual Report are consistent with the annual financial statements audited by the Auditor-General of South Africa (AGSA).

The Annual Report is complete, accurate and free from any significant omissions.

The Annual Report has been prepared in accordance with the relevant guidelines issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) applicable to the public entity.

The accounting authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human capital information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the Annual Report fairly reflects the operations, the performance information, the human capital information and the financial affairs of the entity for the financial year ended 31 March 2016.

GRAHAM RANDALL
Managing Director
Interfront
31 July 2016

MUSTAQ ENUS-BREY
Chairperson of the Board
Interfront
31 July 2016

PART

B

- Predetermined Objectives
- Overview
- Core Outcome 1: Become a Strategic and Preferred Partner to Existing Clients
- Core Outcome 2: Establish a Diversified Customer Base
- Core Outcome 3: Maintain a Sustainable, Financially Self-Sufficient Organisation

PERFORMANCE REPORT

1 PREDETERMINED OBJECTIVES

The AGSA performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the selected objective presented in the annual performance report of Interfront for the year ended 31 March 2016. The audit conclusion on the performance against predetermined objectives is included in the report to management and contains no material findings.

The Report of the Auditors is included in Part E: Financial Information.

2 OVERVIEW

2.1 Measuring Interfront's Performance

Interfront aligns its performance management to the approach that SARS and National Treasury follow to performance planning, monitoring and evaluation.

In line with SARS' commitment to maintaining and promoting good governance, Interfront's strategic measure pertaining to establishing and supporting effective governance with an annual measure of an unqualified report forms part of the overall SARS' overall strategic measures.

Interfront reports quarterly to its Board on its performance, focusing on the three strategic outcomes which relate to: becoming a strategic and preferred partner to existing clients; establishing a diversified customer base and also; to maintain a sustainable financially self-sufficient organisation.

2.2 Performance against Predetermined Objectives

The initial phase of the customs modernisation programme in SARS resulted in the replacement of several legacy mainframe systems with modern components and architecture. Interfront developed the iCBS system that replaced the core declaration processing function. This phase of the modernisation programme went live in August 2013.

The next phase of the programme is being developed to adapt the current production systems to implement the new customs acts, as well as to add additional functional components. The NCAP in SARS addresses the requirements of the two new acts.

2.3 New Customs Acts

The NCAP will occupy the majority of Interfront's capability in the medium term. The programme will align South Africa with the latest international legislative requirements, global trade trends and technological advances and provide for efficient, predictable and transparent customs procedures to facilitate trade.

The status of the legislation is as follows:

- The Customs Control Act (CCA) will take effect on a future date that is yet, to be determined. The rules guiding implementation have been reviewed extensively.
- The Customs Duty Act (CDA) of 2014 will take effect on a future date that is yet, to be determined. The rules guiding implementation are still in draft form.
- The Excise Duty Act (EDA) is currently being drafted.

Theuns Matthee, Siviwe Sisusa, Vanessa Boshoff and Queen-Ethel Mnguni.

2.4 Intended Outcome of the New Acts

a) Deliver capability for SARS Customs to evolve into a world-class customs agency.
b) Enhance the transparency and predictability of doing business.
c) Promote exports.
d) Enhance business competitiveness and stimulate domestic activity.
e) Promote Small, Medium and Micro Enterprises (SMMEs).
f) Secure the supply chain.

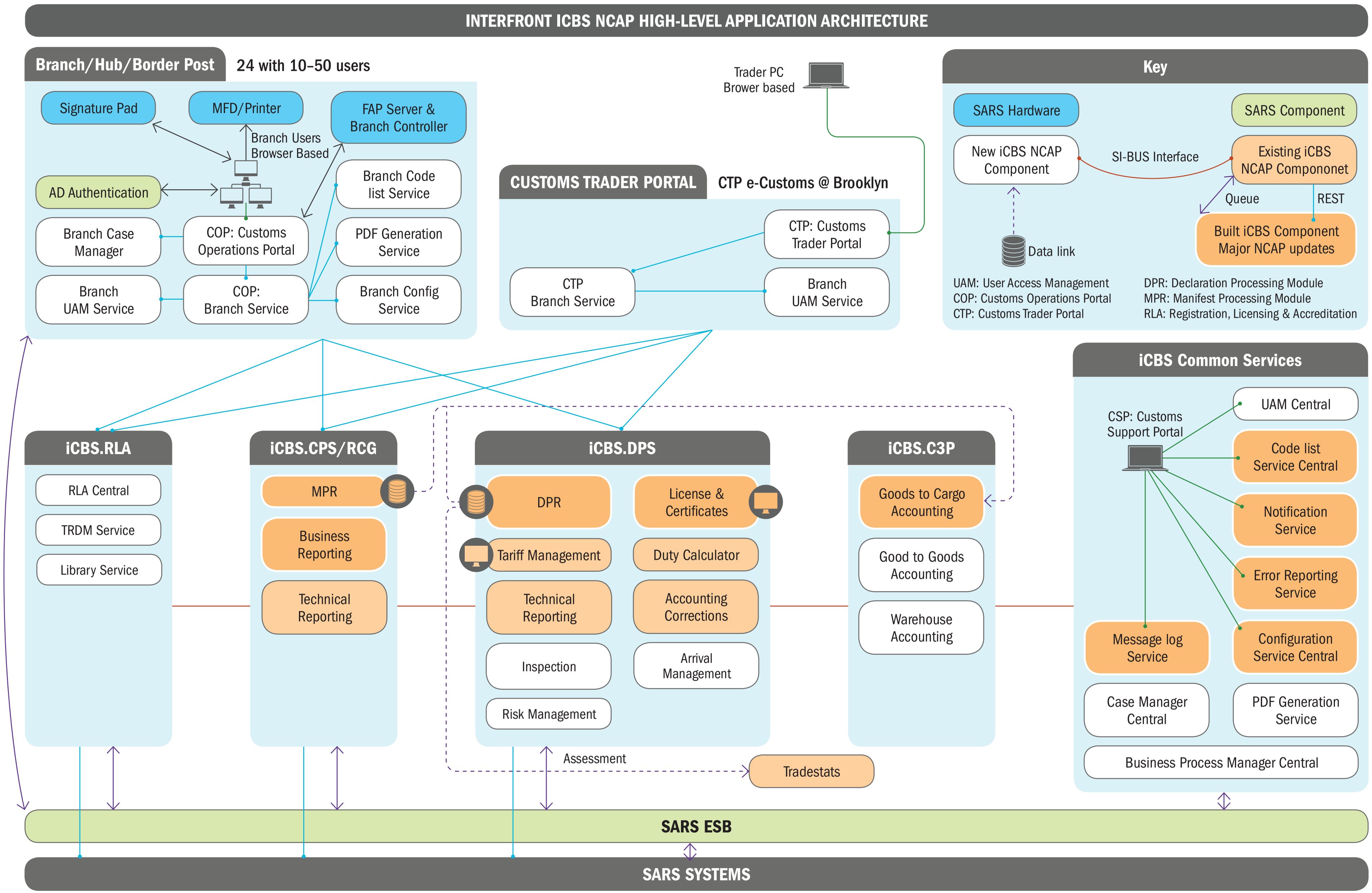
2.5 SARS NCAP Phased Implementation Programme

a) Active: Phase 1 Registration Licensing and Accreditation
b) Active: Phase 2 Reporting of Conveyances and Goods
c) Active: Phase 3 Customs Procedure Management, Clearance/Release processing
d) Phases 4 to 7 are being planned and will cover the remainder of the CCA, the CDA and all of the EDA.

Interfront's primary engagement with SARS at this stage is to develop iCBS software to support the implementation of the CCA. SARS has been instrumental in guiding the implementation of the CCA in a manner that will allow trade and SARS' operational entities to comply with the CCA without disrupting trade and ensuring compliance. The current components in production are DPS, LCM, CDC and TMS. Collectively, these components will be adapted to meet the requirements of the new acts. New components need to be designed and built and existing components adapted as required by the Act and these include:

- Registration Licensing and Accreditation (RLA) – required for the re-registration of all traders.
- Cargo Processing System (CPS) and Customs Third Party (C3P) – required for processing manifests and tracking goods by linking manifests to declarations.
- Declaration Processing System (DPS) – the main processing engine, which needs to be modified to handle new declaration types, procedure codes and business rules. This will be a substantial piece of work and it has accordingly been identified as a large project on its own.

The following diagram illustrates components and relationships in the overall SARS system, with Interfront developed components indicated as yellow blocks.


INTERFRONT ICBS NCAP HIGH-LEVEL APPLICATION ARCHITECTURE
Branch/Hub/Border Post
24 with 10-50 users
Signature Pad
MFD/Printer
FAP Server & Branch Controller
Branch Users Browser Based
AD Authentication
Branch Code list Service
Branch Case Manager
COP: Customs Operations Portal
PDF Generation Service
Branch UAM Service
COP: Branch Service
Branch Config Service
Trader PC Brower based
CUSTOMS TRADER PORTAL
CTP e-Customs @ Brooklyn
CTP: Customs Trader Portal
CTP Branch Service
Branch UAM Service
Key
SARS Hardware
SARS Component
New iCBS NCAP Component
SI-BUS Interface
Existing iCBS NCAP Componet
Queue
REST
Data link
Built iCBS Component Major NCAP updates
UAM: User Access Management
COP: Customs Operations Portal
CTP: Customs Trader Portal
DPR: Declaration Processing Module
MPR: Manifest Processing Module
RLA: Registration, Licensing & Accreditation
iCBS Common Services
CSP: Customs Support Portal
UAM Central
Code list Service Central
Notification Service
Error Reporting Service
Message log Service
Configuration Service Central
Case Manager Central
PDF Generation Service
Business Process Manager Central
iCBS.RLA
RLA Central
TRDM Service
Library Service
iCBS.CPS/RCG
MPR
Business Reporting
Technical Reporting
iCBS.DPS
DPR
License & Certificates
Tariff Management
Duty Calculator
Technical Reporting
Accounting Corrections
Inspection
Arrival Management
Risk Management
iCBS.C3P
Goods to Cargo Accounting
Good to Goods Accounting
Warehouse Accounting
Assessment
Tradestats
SARS ESB
SARS SYSTEMS

SARS has invested in many other systems that house information required by the NCAP. The systems developed by Interfront for the CCA will integrate with other applications to extract the required data to process declarations and manifests successfully.

The NCAP has been shaped into three initial projects (RLA, RCG and DPS), with various front-end screens being required by the applications through which users interact, namely the Customs Operations Portal (COP) and the Customs Trader Portal (CTP).

2.6 Achievements in the Year

- Significant milestones were reached on Phase 1 (RLA) and Phase 2 (RCG) of NCAP in SARS.
- Interfront extended its footprint to include a new office in Pretoria.
- The ADA customs system was upgraded in terms of user interface and technical application compliance.
- 24 × 7 × 365 maintenance and support services were provided to customs systems in operation at our clients.
- The new Manifest Processing System (MPR), developed by Interfront to replace a legacy manifest system, was further enhanced and prepared for production.
- The development of additional functionality to manage provisional payments was completed and added to the declaration processing system, which has been in operation since 2013.
- As the main systems provider for the SARS NCAP, Interfront has developed, through thorough and extensive research and evaluation, a direction and approach with regard to the NCAP systems architecture and technology to sustainably satisfy business, operations, support and development requirements and presented this approach to SARS. The main elements of this approach are:
  - Utilising the open source tools currently used in the production Declaration Processing System (DPS) to implement the NCAP.
  - Converting the existing modular, yet monolithic DPS, to a Service Orientated Architecture (SOA). Existing software assets contained in the iCBS system will be used to prepare the architectural base for the functional DPS overhaul that will be required. As a result, downstream effort will be alleviated significantly.
  - Introducing a procured commercially off-the-shelf (COTS) Business Processing Management (BPM) Solution, instead of building an intricate bespoke workflow/case management solution and maturing it to production-readiness within the required timescales.

3 CORE OUTCOME 1: BECOME A STRATEGIC AND PREFERRED PARTNER TO EXISTING CLIENTS

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENT
Develop iCBS enhancements for the new customs acts	iCBS deliverables for Phases 1,2 and 3 of NCAP	Not applicable	As per SARS project plan	Partly Achieved	Phase 3 targets will not be met due to the revision of timeframes and availability of the Business Requirement Specifications (BRS)

The nature of the core business of Interfront is to set up and maintain an IT centre of excellence with the capacity to build the programme deliverables, required in the bigger scheme of customs modernisation. Each output is meticulously defined and the scope agreed to, prior to the conclusion of the work order and commencement of the work.

Three functional milestones were completed for both RLA and RCG during the year. These milestones were demonstrated to SARS and accepted.

For Phase 3 (DPS), Interfront supported the SARS initiative to develop business requirements in the course of the year while also starting with the re-engineering of the iCBS architecture in preparation for comprehensive changes to declaration processing required by the new acts.

Other systems development for SARS during the year included a new MPR, which was completed with further enhancements and delivered to SARS for final qualification and testing with trade, as well as changes to the DPS to incorporate provisional payments. Both these systems are scheduled to go into production in 2016.

The nature of the core business of Interfront is to set up and maintain an IT centre of excellence.

Performance-wise, the success realised by Interfront during the year is reflected in the further increase to 78.4% of an already high recovery rate. This is an input measure reflecting the utilisation of Interfront's productive resources and leads directly to income on a time and material basis of pricing.

From the output perspective, company performance is measured by the extent to which these deliverables are successfully built and delivered with regard to timelines, quality and price. This is subjected to vigorous independent oversight by SARS that is comprehensively documented.

While Interfront has fully supported the NCAP phases as defined in the SARS project plan, the delivery schedule for DPS was extended beyond the current year. An assessment of 'partly achieved' has therefore been recorded against the original objective.

In conclusion, feedback has indicated that the quality has been excellent and the performance for the year against the plan has been noteworthy.

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Engage in knowledge transfer to take over selected vendor applications in SARS	Vendor applications built and deployed by Interfront	Not applicable	One vendor application	Achieved	Service Manager (SM) replaced on NCAP by COP and CTP

At the beginning of the year, it was envisaged that selected customs applications from other vendors would be transferred to Interfront to support and develop further for SARS. In order to achieve this, significant knowledge transfer from the relevant vendor to Interfront would be required. Practical considerations have prevented an actual application from being moved to Interfront in the year, but significant knowledge transfer from SARS to Interfront has taken place and has been incorporated into new systems being developed by Interfront, particularly the new user interfaces for traders and customs officials.

> The Pretoria office enables closer interaction with SARS on a day-to-day basis on all project and support activities.

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Establish an Interfront office in Pretoria	Interfront team members established in Pretoria office	Not Achieved	Two team members	Achieved	Total of four appointments made for this office (two appointments, two transfers)

Samuel Mtsweni and Temogo Hlatshwayo.

80%
of targets achieved

20%
of targets partially achieved

In the course of the year, Interfront established an office in the SARS premises in Pretoria. This enables closer interaction with SARS on a day-to-day basis on all project and support activities. Business analysis and production support staff have been located in this office, under the guidance of an Operations Manager.

The target for the 2015/16 financial year was the appointment of two team members. However, a new iCBS system, Manifest Processing, was delivered to SARS QA and Pre-production during the course of the year, adding a substantial piece of code base and functionality for SARS. Management identified the requirement for more staff to support the expanded system from our Pretoria office, which resulted in the appointment of four team members. Further growth is expected in the new year.

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Establish a long-term development partner agreement with SARS	New contractual and operating framework	Not applicable	Partner agreement with SARS	Partly Achieved	Master Service Agreement (MSA) renewed for twelve months

A key focus for Interfront is to provide a quality support service to SARS Customs and ADA that, meets or exceeds the service levels required by these clients. As part of this service, Interfront continues to develop minor enhancements to the iCBS system as required by SARS and provides regular updates in respect of the legacy system currently operational within ADA. A dedicated support team is deployed for each of these clients and support requests are managed and service levels measured and adhered to. Relationships are nurtured and maintained through regular communication and face-to-face visits on operational and executive level.

An MSA that was established with SARS in 2011 expired at the end of March 2016. A one year extension of this agreement was negotiated and confirmed by SARS before 31 March 2016.

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Support and grow ADA Luxembourg business	ADA Luxembourg remains a reference site for Interfront	Not applicable	Maintain the Support and Maintenance Agreement	Achieved	Support agreement maintained
		Not applicable	Perform site visit	Achieved	Two site visits were undertaken during the year under review

Interfront's legacy system is operational in ADA and a services agreement with Interfront to support this system has been in operation for the last four years. A two year contract is currently active and is likely to be renewed in January 2017.

Interfront intended to perform one site visit during the year under review, but the resignation of the ADA relationship manager necessitated a second visit during which the Operations Director joined the ADA team to assure ADA of Interfront's continued commitment and hand-over the relationship management to the new Interfront support manager.

During the year under review, Interfront engaged in an upgrade of the ADA system to comply with the latest versions of technical components which form part of the solution. Part of the upgrade also included a renewal of the user interfaces. The upgraded version of the system was delivered to ADA for qualification in early April 2016 and will be put into operation later in the year. Routine maintenance of the system includes software fixes and changes to the system to comply with EU customs regulations in Luxembourg.

Interfront ADA Team.

4 CORE OUTCOME 2: ESTABLISH A DIVERSIFIED CUSTOMER BASE

ACTIVITY	MEASURE	ACTUAL ACHIEVEMENT 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Establish sales/ marketing direction	Development of sales/marketing strategy	Not applicable	Strategy	Achieved	The Sales and Marketing Strategy was approved by the Board

Interfront was incorporated as a wholly owned subsidiary of SARS, primarily, to house the purchased IP and intellectual capital in order to develop and support the customs IT modernisation software for its principal. At the time, agreements were concluded with two resellers to on-sell the software and provide integration and related services. National customs agencies, globally, are broadly aligned in terms of World Customs Organization (WCO) agreements and installing the iCBS in other agencies, may foster cooperation and could promote economies of scale.

> Interfront has embarked on the SOA/BMP journey. A SOA solution is a set of well-defined, independent and coordinated software building blocks, called " services".

The positioning of Interfront as a Schedule 3A public entity in terms of the PFMA, on the other hand, does not envisage high-risk commercial engagements supported by public funds. Furthermore, diversification of the customer base holds little benefit in itself, when Interfront is regarded as a special purpose vehicle to develop excellence and capacity in the IT domain, while building and supporting a system for SARS.

The approach to market is furthermore influenced by the maturity of the iCBS and in parallel, the development during the year of the strategy, technology and timelines to deliver on the iCBS NCAP development. At the outset, therefore, the strategic objective to 'Establish a Diversified Customer Base' was carefully cascaded into activities which allowed for intensive consideration in the 2015/16 fiscal year, of the sales/marketing strategy, ongoing engagement with the Board on emerging opportunities, as well as provision to look carefully at opportunities close to home in Southern Africa.

Ongoing engagement took place with our resellers and was informed by our joint responses to, *inter alia,* requests for information or proposals from developed countries, as well as from those closer to home. Generally, agencies indicated that they prefer comprehensive financial solutions encompassing a broader sphere of government finance than simply the customs domain. Furthermore, fixed pricing is a prerequisite, although significant customising is usually required to meet the respective specifications.

The activities specified in the performance plan, were supported by thorough reporting and consideration by the Board and were based on specific engagements with SARS and potential customers. This led to a Board meeting held on 4 February 2016 to consider company strategy and to determine the way forward.

The Board determined that prominence should be afforded strategically, to building and implementing the iCBS NCAP development for SARS. This should be supported with a focus on building resources to create a centre of excellence for IT skills and expertise for Interfront, as well as for SARS. Interfront will continue to maintain and support its brand and will remain committed to making its IT customs software available for sale, in instances where the reseller assumes responsibility for the supporting services and the risk. It is likely that interest will be shown increasingly as product development continues and the iCBS matures.

In conclusion, the strategic objective was achieved during the fiscal year and it was determined that diversifying the customer base should be less prominent in the present environment, while all resources are focused on current development and support work.

ACTIVITY	MEASURE	ACTUAL 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Generate new income from outside current portfolio of projects	Quarterly reports for EXCO approval and Board review	Not applicable	Four reports	Achieved	Four reports submitted and approved

ACTIVITY	MEASURE	ACTUAL 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Explore opportunities in Southern Africa	Engagement with the relevant stakeholders in SARS and/or Southern African customs agencies	Not applicable	Two engagements	Achieved	Three engagements for the year under review as opportunities presented themselves

5 CORE OUTCOME 3: MAINTAIN A SUSTAINABLE, FINANCIALLY SELF-SUFFICIENT ORGANISATION

ACTIVITY	MEASURE	ACTUAL 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Retention of management team and staff	Percentage of staff turnover	Achieved 18.8%	Less than 18%	Achieved	12.3%

Various initiatives were put in place with a view to making the company an attractive place to work. These have brought positive results and staff turnover has reduced to 12.3% (2014/15: 18.8%), which is comfortably below the set target of 18%.

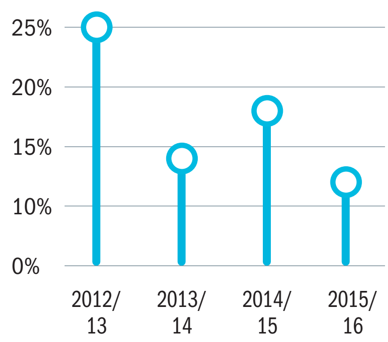
> As a small company in the IT industry, retaining staff is not without its challenges.

During the previous financial year we determined staff engagement levels to establish a baseline and to investigate what motivates the engagement of our staff. During the year under review, active steps have been taken to increase staff engagement, with much being done to invest in our senior layer of staff. These interventions focused on identifying development areas for management, with an additional emphasis on coaching to enable an effective management team. The project is ongoing and will be incorporated in each manager's personal development plan. This will be further pursued in the new financial year and it is envisaged that it will focus *inter alia* on addressing the two engagement factors requiring the most attention, notably, continued development of staff, as well as management training.

Interfront also initiated a skills development programme during the year to fast-track the development of junior staff members.

As a small company in the IT industry, retaining staff is not without its challenges and one of the main difficulties is ensuring that staff have a structured growth path, even when the entity has limited vacant positions in more senior posts. This was evident in the exit interview report, which indicated that 32% of staff who had resigned had left to pursue new opportunities and growth. To address this, the Board directed that a formal career development plan should be prepared. This will start in the new financial year and should further support staff retention.

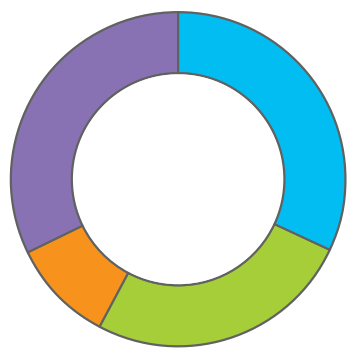
Staff turnover for the last four years showed a steady decline



ACTIVITY	MEASURE	ACHIEVED FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Establish a Skills Development Programme (SDP) for selected Employment Equity (EE) candidates	Programme defined and establish candidate selection	Not applicable	Approve programme	Achieved	Formal plan was approved and twenty eight candidates have been selected

A Skills Development Programme (SDP) was established during the year to ensure that we invest in our staff's career paths, with particular emphasis on junior staff to fast-track their development. Present realities, future company goals and employees' career ambitions are all key considerations when developing an SDP. The current plan, mainly focuses on establishing key career foundation principles aimed at technical development, soft skills development and development in the specific sphere we operate in. Twenty-eight junior staff members were earmarked to participate. This programme will continue into the foreseeable future and although designed to ensure the growth and development of EE staff, all staff will be included.

A new initiative with a longer-term focus, taking the form of a career development framework is being investigated to guide the entity towards the long-term development of staff. This will not only assist in establishing focused career growth paths but will also support staff retention as it will map out future growth opportunities.



Growth/new challenges	32%
Travel distance	26%
Headhunted	10%
Other	32%

ACTIVITY	MEASURE	ACTUAL ACHIEVED FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Expand staff complement to meet growth in SARS business and create capacity for new business	Successful appointment and on-boarding	Not applicable	Increase staff number by twenty	Partly Achieved	Net growth of fifteen as some of the positions where resources are scarce took longer to fill than anticipated

Due to the increased scope of work orders from our main customer and shareholder, SARS, the staff complement was earmarked to be increased. It was planned that the recruitment drive would commence very early in the financial year, but due to some uncertainties in project requirements that directly impacted which skills should be recruited, the recruitment drive only started in full force in the second quarter of the financial year. The drive resulted in twenty-eight appointments. This, together with the resignations, increased our overall staff number from 83 (1 April 2015) to 98 (31 March 2016).

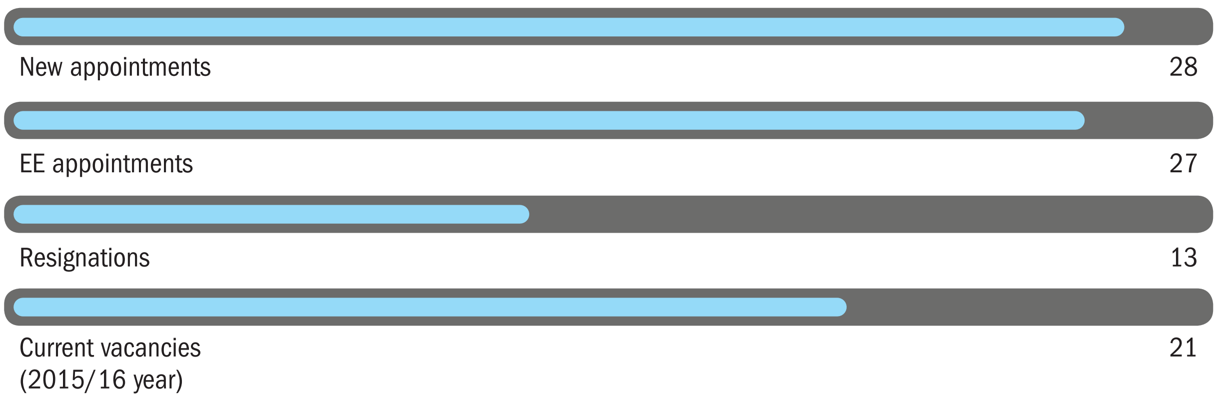
> "Increased our staff number to 98."

Our goal was to increase the staff complement by twenty, but due to the delay mentioned above, as well as difficulties in obtaining skills in some areas where skilled staff are especially scarce, a net growth of fifteen was achieved.

STAFF MOVEMENT FOR THE YEAR	NUMBER
No. of new appointments	28
No. of EE appointments	27
No. of resignations	13
No. of current vacancies (2015/16 year)	21

EMPLOYMENT AND VACANCIES AT 31 MARCH					
	2015	2016			% of overall vacancies
Level	No of employees	No of employees	Approved posts	Vacancies	
Non-executive directors	4	4	4	0	0
Top management EXCO	3	3	3	0	0
Senior management	8	8	9	1	11.1%
Professional qualified	32	51	72	21	29.2%
Skilled	26	24	24	0	0
Semi-skilled	11	6	6	0	0
Unskilled	2	2	2	0	0
TOTAL	**86**	**98**	**120**	**22**	**18.3%**

Staff movement for the year



ACTIVITY	MEASURE	ACTUAL ACHIEVED FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Invest in product development	Proposal for product development presented to SARS Digital and Technical Management Committee (DTMC)	Not applicable	Proposals for SOA and BPM in iCBS	Achieved	SOA and BPM principles established

In order to ensure that SARS customs systems stay abreast with best practice, a roadmap of how to introduce an SOA and BPM into the customs systems landscape, was tabled to the SARS Digital Technical Management Committee (DTMC). An SOA solution is a set of well-defined, independent and coordinated software building blocks, called 'services'. These typically map closely to the business services of an organisation, making it particularly useful to align the workings of the system to the business processes. Within such an architecture, the system services need to be orchestrated to deliver an end-to-end business process. This function is well-served by a BPM platform, and thus SOA and BPM are complementary concepts in an enterprise business solution.

Interfront has embarked on the SOA/BPM journey. New systems and system components are being built as independently deployable software services. Interfront has also invested in the adoption of a light weight BPM platform for the implementation of the first phase of the SARS NCAP. As Interfront and its products mature in the SOA/BPM paradigm, benefits such as the following will be realised for our clients: Increased business and technology alignment, increased organisational agility, lower system support costs, decreased operational impact of system maintenance and an overall minimised total cost of ownership.

Interfront Corporate Team: Michael Nolan, Nadine Hector-Moses, Selvie Betchu, Angelique Appollis, Madelein Pepperell, Leilanie Janse van Rensburg, Lynn Solomons, Belinda Hendricks, Zodwa Gaga and Nombulelo Mohoto.

TECHI's

ACTIVITY	MEASURE	ACTUAL ACHIEVED FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Develop a longer term strategic plan for Interfront	Five year Strategic Plan	Not applicable	Approve Plan	Achieved	Plan approved by Board

The Interfront Board approved Interfront's 2016/17 to 2020/21 Strategy and Business Plan at its meeting held on 3 March 2016. It is foreseen that Interfront will continue to associate more closely with SARS and may well become an IT development centre of excellence within SARS. The Strategy and Business plan for the next five years focuses on two core outcomes, namely: Quality Software Development and Support, as well as Maintaining a Software Development Centre of Excellence (COE). The second core outcome of: Maintaining a Software Development Centre of Excellence is focused on staff retention, staff development, as well as maintaining and developing a COE and is looking at increasing Interfront's graduate's intake. The unqualified audit report measure has been maintained to ensure alignment with SARS overall strategy.

Achieved a clean audit report.

ACTIVITY	MEASURE	ACTUAL ACHIEVED FOR 2014/2015	TARGET 2015/2016	ACHIEVED 2015/2016	COMMENTS
Establish and support effective governance	Unqualified audit report	Achieved	Unqualified audit report	Achieved	Refer to Part E of this Report

PART C

GOVERNANCE

1 INTRODUCTION

> Good corporate governance has its foundation in ***effective*** and ***ethical leadership***. ***Effective leadership*** is about directing performance and it is results-driven. It is about achieving purpose and strategic goals. ***Ethical leadership*** is exemplified by responsibility, accountability, fairness and transparency. ***Ethical leadership*** and ***effective leadership*** should reinforce each other.
> (Draft King IV Report on Corporate Governance)

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.

The Executive and the Accounting Authority are responsible for corporate governance.

2 EXECUTIVE AUTHORITY

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

2.1 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.

The Board conducts its business in the best interest of the company and seeks to add value by addressing the needs of Interfront's stakeholders and its responsibility to society at large, while growing and ensuring the financial viability of Interfront.

The Interfront Board, its committees, executives and employees are devoted to achieving the highest standards in corporate governance, corporate responsibility, risk management and social responsibility.

Interfront currently has a Board of seven directors. The roles of the Chairperson and the Managing Director are separated and a clear division of authority exists between these roles.

2.2 BOARD MEMBERS

MUSTAQ ENUS-BREY (62)

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

Qualifications and Experience

Founder member and CEO of Brimstone Investment Corporation Ltd.

A qualified Chartered Accountant.

Serves as the Chairperson of Oceana Group Limited and Life Healthcare Group Holdings Limited.

Serves as director on a number of boards including Triangle Core Real Estate Fund Group Ltd, Lion of Africa Insurance Company Ltd and House of Monatic (Pty) Ltd.

KOSIE LOUW (63)

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

Qualifications and Experience

Chief Officer: Legal Counsel at SARS overseeing research and policy development, interpretation and rulings, dispute resolution and product oversight in SARS.

Holder of a Bachelor degree of Commerce and BProc.

MATSOBANE MATLWA (60)

Non-Executive Director, Chairperson of the Finance Committee

Qualifications and Experience

Matsobane is a qualified Chartered Accountant, holds an MBA from Alabama University in the United States, a Master of Commerce (Taxation) from the University of the North West and has completed a management programme at the University of Cape Town.

Has held various strategic roles in both the public and private sectors.

Prior to starting his own business he served as CEO of the South African Institute of Chartered Accountants (SAICA), worked in SARS occupying various senior managerial positions including Group Executive for the Large Business Centre, served as General Manager at ABSA Finance and was an Audit Partner at Ernst & Young.

He has served on the boards of several companies including Clientele Limited, Spechpharm Holdings, JD Group and Sasol Inzalo Limited.

Matsobane is currently the Chief Officer: Finance of SARS.

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 three directors are non-executive and are employed by the shareholder in top management positions. All Board appointments are sanctioned by the shareholder, which replaces the need for a nomination committee and other formalities.

All directors are South African citizens.

JONAS MAKWAKWA (47)

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

Qualifications and Experience

Jonas qualifications include a BCom Accounting degree and a diploma in Business Management. He also completed the Global Executive Development Programme with GIBS studying in Singapore and Malaysia.

He joined SARS in 1995 and started his career as an auditor. During this time he played a major role in the transformation and advancement of young black people. After his role as regional auditor responsible for Gauteng, he became the General Manager for Enforcement. Jonas was responsible for benchmarking and aligning both the Audit and Enforcement divisions with international standards and he introduced training programmes for auditors. Jonas represents management in all engagements with organised labour and is currently the Chief Officer: BAIT Business and Individual Tax at SARS.

GRAHAM RANDALL (64)

Managing Director, Member of the Finance Committee

Qualifications and Experience

Graham is a Chartered Accountant and spent much of his career at the AGSA. 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.

JOHN ROBERTSON (56)

Executive Director – Operations

Qualifications and Experience

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

LEILANIE JANSE VAN RENSBURG (34)

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

Qualifications and Experience

Leilanie also assumes the role of Company Secretary.

She 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.

3 BOARD AND COMMITTEE MEETING ATTENDANCE

The Board's Terms of Reference provide that it should meet at least every three months. For the financial year under review, six Board meetings were convened.

The Terms of Reference for the Remuneration, Social and Ethics Committee as well as those for the Finance Committee, as determined by the Board, provide that these Committees must meet at least twice each year.

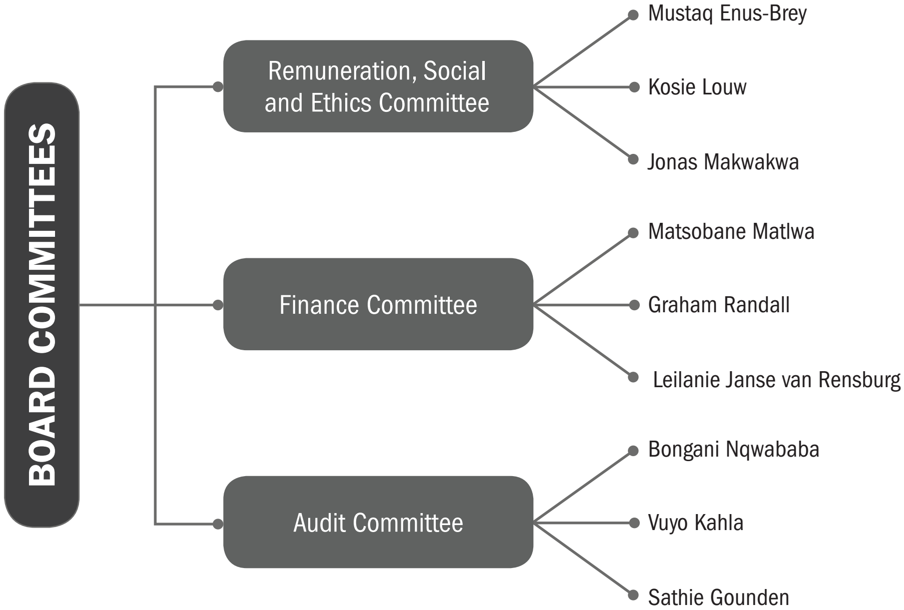
During the financial year under review, two meetings were convened for the Remuneration, Social and Ethics Committee and five for the Finance Committee.

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	See Audit Committee Report
Mustaq Enus-Brey	18 Oct. 2011	6	6	2	2	n/a	n/a	
Kosie Louw	22 Dec. 2009	4	6	1	2	n/a	n/a	
Graham Randall	1 June 2011	6	6	2*	2	5	5	
John Robertson	1 Sept. 2011	6	6	2*	2	n/a	n/a	
Leilanie Janse van Rensburg	1 Oct. 2011	6	6	2*	2	5	5	
Matsobane Matlwa	5 Feb. 2015	6	6	n/a	n/a	5	5	
Jonas Makwakwa	5 Feb. 2015	6	6	2	2	n/a	n/a	

*attended the meeting as a permanent invitee

Interfront Bursars.

4 BOARD COMMITTEES



4.1 Audit Committee

The Interfront Audit Committee has been combined with the SARS Audit Committee. This allows for independent oversight. The Report of the Audit Committee as well as, its members and details of their attendance of meetings are set out in Part E of this report.

4.2 Finance Committee

After Interfront's Audit Committee was combined with the SARS Audit Committee, the Finance Committee was established to support the joint SARS Audit Committee and the Interfront Board regarding oversight over Interfront's financial reporting, the system of internal control, the performance of Interfront's external and internal audit, as well as risk management.

Matsobane Matlwa is the Chairperson of the Finance Committee.

In order for Interfront to achieve its objectives, it needs to identify its business risks and consider the mitigation thereof.

4.3 Risk Management

In order for Interfront to achieve its objectives, it needs to identify its business risks and consider the mitigation thereof. Therefore, as part of its strategic planning process, Interfront also reviews its risk at the drafting stage of its strategic plan and at least once more during the financial year.

Interfront's management takes ownership of identifying and quantifying risks and initiate risk management methodologies to mitigate against the effects of such risks. The management of risk also encompasses a review of internal controls, which includes a review of policies and procedures and the verification of and adherence to, as well as the relevance of, the policies and procedures.

The identification and qualification of risks is reviewed and monitored by the Audit Committee and the Interfront Board.

As a second line of defence, risk management forms an important part of the internal and external audit functions.

The following risks were identified as the top five risks through the year and mitigating actions were directed at reducing the likelihood of their occurrence as well as limiting their impact where possible.

4.4 Managing our Risk

RISK	MITIGATING ACTIONS PERFORMED	LINK TO STRATEGY
Loss of skills/Key staff	Continuous market alignment. Analyse culture survey results and implement action plan. Execute career planning process. Support and encourage targeted training. Support and encourage staff/management forums and follow up on issues promptly. Promote transparent and equitable human capital processes. Succession planning. Provide exposure to a wider range of technical skills.	Maintain a sustainable, financially self-sufficient organisation
Change in business model from time and material to fixed price	Establish reliable estimation model for fixed price quotes. Negotiate alternative projects with SARS when milestones are delayed to minimise idle time. Negotiate part payments with SARS when milestones are delayed. Negotiate bridging finance with SARS when cash flow inadequate. Manage working capital based on continuous forecasting and maintain a reasonable buffer.	Maintain a sustainable, financially self-sufficient organisation
Uncertainty regarding future premises	Secure rental/purchase. (finalised in March 2016)	Maintain a sustainable, financially self-sufficient organisation
Progress towards representation in accordance with the Employment Equity (EE) Act.	Regular review of EE Plan. Graduate recruitment and selection. Skills Development Plan.	Maintain a sustainable, financially self-sufficient organisation
Dependency on a single client	Engage with authorised resellers to execute sales and marketing plan. Expand footprint, establish office in Pretoria. Expand customer base to local market.	Establish a broader customer base

4.5 Internal Audit

The Board recognises its responsibilities to ensure effective and adequate internal controls and appointed SARS' Internal Audit to provide assurance in this regard.

Internal audit reviewed and provided management with an opinion on the internal controls around and within Interfront processes, as well as Interfront's ICT environment. There were no significant audit findings to be reported to the Audit Committee.

"Interfront's strategy is to ensure that remuneration matched individual contributions to Interfront's performance, within the framework of market forces."

Interfront's Fraud Prevention Policy and Strategy were adopted during the year under review.

4.6 Remuneration, Social and Ethics Committee

Kosie Louw is the Chairperson of the Remuneration, Social and Ethics Committee. The terms of reference sets out the responsibilities of the Committee.

4.7 Remuneration of Board Members

The Remuneration, Social and Ethics Committee reports directly to the Board of Directors and submits all of its decisions to the Board for ratification. Interfront's strategy is to ensure that remuneration matches individual contributions to Interfront's performance, within the framework of market forces, while protecting shareholders' interests and Interfront's financial health over the short and long-terms.

The remuneration policy is informed by the concept of total cost to company (CTC) for executives, senior employees and employees. It determines Interfront's guaranteed remuneration for employees.

CTC represents a generally accepted practice for paying employees, enabling accurate and meaningful benchmarking of remuneration packages. The company positions CTC against the industry from which the relevant skills have been acquired, or to which the skills are likely to be lost.

CTC includes the following guiding principles:

- Basic remuneration, incorporating basic pay that is aligned to Interfront's performance-based philosophy while being benchmarked by utilising current market information within the industry in which Interfront operates.
- A performance-based bonus that is dependent on Interfront's performance and rewards high-performing employees for reaching their performance targets.

National Treasury evaluated the remuneration level for Interfront's independent, non-executive board and committee 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	**2015/16**	
Chairperson	R4 584 per day	R573 per hour
Members	R3 408 per day	R426 per hour

Mr Mustaq Enus-Brey, an independent, non-executive director, Chairperson of the Interfront Board and 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 E: Financial Information.

5 COMPLIANCE WITH LAWS AND REGULATIONS

As a state-owned entity, Interfront must comply with the provisions of the Companies Act, the PFMA and the Treasury Regulations.

Interfront has substantially applied the King III principles and practices. However, as a state-owned entity and wholly owned subsidiary of a public entity, a few of these principles are not appropriate and Interfront has, in some instances, adopted alternative practices to those recommended.

An annual general meeting was held on 3 March 2016, where the following matters were addressed:
- presentation of the annual financial statements;
- re-appointment of external auditors;
- re-appointment of the Audit Committee; and
- extension of the employment contract of the Managing Director.

6 FRAUD AND CORRUPTION

Interfront's Fraud Prevention Policy and Strategy were adopted during the year under review. They provide for, *inter alia*, detecting, investigating and resolving instances of fraud and corruption. In addition, Interfront applies a high degree of direct supervision and no instances of fraud or corruption have been reported or identified in the current year.

James Leslie, Carlyle Ruiters and Johan Janse van Rensburg.

> Employees represent one of Interfront's most significant investments and Interfront continues to ensure that the culture of training and providing opportunities for employees to grow is part of our ethics.

7 MINIMISING CONFLICTS OF INTEREST

All staff and directors are required to complete the declaration of private interest on the date of their appointment, as well as at regular intervals thereafter, to ensure transparency with regard to staff's and directors' private interests.

The declaration of interest also relates to any spouse and/or 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.

8 CODE OF CONDUCT

Interfront's formal Code of Conduct expresses the set of values and behaviour expected of Interfront staff, to ensure that they conduct themselves in an appropriate and ethical manner. The standard of conduct required by the code must be met by Interfront staff, 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 as, or be known to be an Interfront employee.

The policy makes provision for *inter alia* the non-disclosure of confidential information and for the standard of conduct expected from Interfront employees.

9 SUSTAINABILITY

Interfront's approach to sustainability is based on a holistic view of Prosperity, Human Capital and the Planet.

Interfront's strategic focus, based on the approach set out above, encompasses the following:

Prosperity

- Meeting our strategic objectives
- Meeting our clients' needs and expectations

Planet

- Minimising waste
- Monitoring water usage
- Conserving energy

Human Capital

- Retaining and developing talent
- Promoting equality, diversity and opportunity
- Maintaining sound labour relations
- Focusing on health, well-being and safety

Prosperity

Interfront's purpose is found in our mission and vision statements. These statements together describe the main thrust of Interfront and its ultimate goal. The strategic objectives are the steps and accomplishments that we need to attain to realise our ultimate goal.

A report on Interfront's performance against its strategic objectives is set out in Part B of this report.

Our first objective focuses on our current clients and how to enhance and build our relationship with them in becoming a preferred partner.

In order to meet our clients' needs and expectations Interfront must ensure the integrity and protection of clients' data and information. A document management system was put into operation in 2015 to enhance security. All operational functions utilise a shared document repository with full configuration management of all documents.

Various measures were put into place during the year to improve information security within Interfront. Company electronic chat communications were moved to a company-hosted chat solution for improved security.

Additional procedures and standards were introduced for intrusion detection and prevention and mobile device or Wi-Fi access to company information. Several internal and external audits focused on information security during the year and findings were analysed and actioned promptly. Focus will also be placed on security measures in the development of software for clients. An external evaluation of this area within Interfront is planned for the first half of 2016.

Various pieces of legislation, in particular the Electronic Communications and Transaction Act No. 25 of 2002, provide that electronic messages be treated in law like any other traditional forms of communication, provided they are managed in a manner that allows them to retain their characteristics.

Compliance is based on the precepts of:

- Maintaining emails in their original form without alternation or deletion.
- Protection against all threats including unauthorised access to emails as well as physical damage.
- Expeditious accessibility by authorised personnel.

In response to these requirements, Interfront procured a proprietary message archiver, that includes tamper-resistant safeguards. Implementation thereof is planned for early in the new financial year.

Human Capital

By providing our employees with the opportunity and support to excel personally and professionally, we enable their communities to excel.

People are imperative to Interfront's success and the loss of skills or key staff continues to be our highest risk.

Employees represent one of Interfront's most significant investments and Interfront continues to ensure that the culture of training and providing opportunities for employees to grow is part of our ethics. This is demonstrated in our various formal and informal programmes directed at building skills. A Skills Development Plan was approved by the Board during 2015.

Interfront promotes a culture of diversity through the promotion of equal opportunity, which it does not merely regard as a social responsibility. Interfront's Board and management are committed to promoting the EE plan and policy.

Our Health and Safety Committee is well established and ongoing training is provided for members of the Committee. Interfront management and staff, with the support of the Health and Safety Committee, are required to ensure that all legal requirements are complied with and that current best practice is identified and implemented.

Planet

Paper is the primary consumable used by Interfront and eco-friendly office behaviour is encouraged. All waste products that are recyclable, such as plastic and paper, are recycled.

Redundant IT hardware is recycled through a certified third party, supported by documented proof thereof.

Interfront is currently in the process of redesigning its office layout and in so doing will be looking at feasible options to conserve energy.

10 SOCIAL RESPONSIBILITY

Interfront is engaged in several initiatives in order to be an active and responsible company within its community.

A number of desktops and computer monitors were donated to the Zandvliet High School in Macassar after the hard drives of Interfront's desktops had been replaced and the ICT Department had ensured that these machines were in good working order.

Handover of donated desktops and computer monitors to Zandvliet High School by Interfront ICT Members.

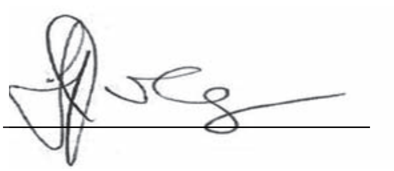
11 COMPANY SECRETARY

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, avoids any conflicts 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.

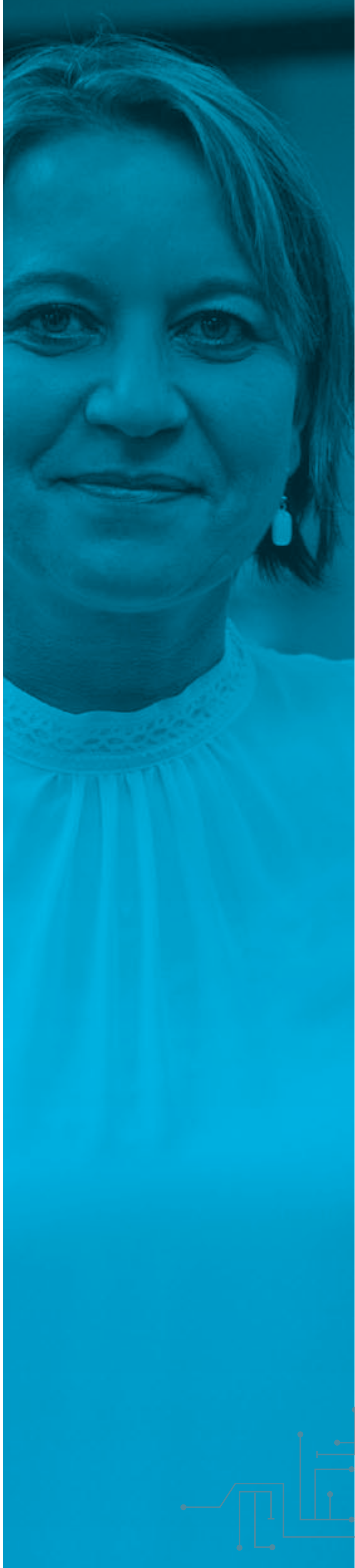
11.1 Declaration by the Company Secretary

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 2016

‘Interfront’s purpose is found in our mission and vision statements. These statements together described the main thrust of Interfront and its ultimate goal.’



PART D

HUMAN CAPITAL MANAGEMENT

1 OVERVIEW

Human capital is one of the foundation stones in any organisation. In a software development entity this is even truer. The successful management of our human capital is thus not just very important but critical to the success of Interfront.

Since the world has become a global village and job opportunities are no longer confined to your immediate surrounding environment, the scarcity of talented technical resources is becoming more and more visible. This, together with the growing expectations of the modern-day worker, has increased the complexity of the human capital function and required it to adapt from being a support division in an organisation to a strategic partner driving company objectives.

The key activities and measures that were set for the year under review, as well as further explanation of our performance against these, have been included in the Performance Report in Part B of this annual report. This section provides additional information regarding, inter alia systems, remuneration levels and diversity.

1.1 Implementing a Formal Human Capital System

As a small entity we have, up to now, managed most of our human capital processes manually. As the entity matured, the need for a formalised electronic system became essential. Considerable research was carried out to identify an appropriate system and to ensure that it meets all the requirements which apply to a stated-owned company. Extensive preparation has taken place to support the transition to the new system early in the next financial period. It will be used to maintain comprehensive staff records, performance management, as well as compensation and other benefits, making these available to management in real time, while also decreasing paper wastage and reducing the risk of human error. The simplified human capital activities will most importantly, reduce the time spent on manual processes and allow human capital to become involved in more strategic activities.

2 ENSURING FAIR REMUNERATION PRACTICES

Although remuneration is not the only factor motivating staff, it can be a significant contributor to de-motivating them, especially when they feel that they are not being remunerated fairly. Ultimately, this can lead to disengagement and resignation.

We endeavour to be transparent and fair in our remuneration practices taking cognisance of our EE targets, education levels and experience. This is evident from the information gathered during our exit interviews, where all the responses, except one, indicated that employees felt they were being fairly remunerated.

HIGHLIGHTS

12.3%

REDUCED
STAFF TURNOVER

75.5%

INCREASED
EE REPRESENTATION

INCREASED
FOCUS ON STAFF WELFARE

"Since the world has become a global village and job opportunities are no longer confined to your immediate surrounding environment, the scarcity of talented technical resources is becoming more and more visible."

The remuneration report in Part C: Governance, provides detail regarding our remuneration principles. These are consistent with those of the previous financial year. Remuneration amounts are disclosed below.

TOTAL PERSONNEL COST					
Year	Total expenditure	Personnel cost	Personnel cost as a % of total cost	No of employees (Average)	Average personnel cost per employee
2015/16	82 523 029	63 575 859*	77.0 %	90.8	700 175*
2014/15	70 033 351	53 027 764*	75.7%	81.9	647 312*

* Amount includes salaries and other personnel-related costs.

LEVEL	PERSONNEL EXPENDITURE (R)	% OF PERSONNEL EXP. TO TOTAL PERSONNEL COST (R)	NO. OF EMPLOYEES (AVERAGE FOR YEAR)	AVERAGE PERSONNEL COST PER EMPLOYEE (R)
Top Management	6 314 407	10.4%	3.0	2 090 286
Senior Management	8 671 021	14.2%	8.0	1 083 878
Professional qualified	39 047 565	64.0%	54.7	713 478
Skilled	6 287 533	10.3%	21.4	293 360
Semi-skilled	437 668	0.7%	1.6	270 723
Unskilled	231 699	0.4%	2.0	115 849
TOTAL	60 989 893	100.0%	90.8	671 704

PROGRAMME	PERFORMANCE REWARDS	PERSONNEL EXPENDITURE (INCL. REWARDS) (R)	% OF PERFORMANCE REWARDS TO TOTAL PERSONNEL COST (R)
Top Management	587 704	6 314 407	9.3%
Senior Management	795 699	8 671 021	9.2%
Professional qualified	2 297 727	39 047 565	5.9%
Skilled	181 650	6 287 533	2.9%
Semi-skilled	0	437 668	0.0%
Unskilled	10 508	231 699	4.5%
TOTAL	3 873 288	60 989 893	6.4%

3 INVESTING IN FUTURE IT SKILLS

Interfront has a long-term commitment to investing in future IT skills. The programme currently starts at university level, where we provide bursaries for students pursuing a career in IT, followed by an internship programme once bursars have successfully completed their studies. Although this process has been very successful in the past, we have experienced difficulties in attracting coloured students for the programme and new methods to overcome this are being investigated. In the past financial year, seven former bursars who had joined Interfront as interns were taken up in permanent employment, five of these as entry-level developers and the remaining two as junior project managers. These young professionals have made a positive contribution to the company and have been a good indication of the success of the programme. We are positive that the programme will continue to yield high- calibre candidates who will contribute positively, not only to Interfront, but to the IT workforce as a whole, six new bursars started their internships in 2016.

Graduates: Kgomotso Sito, Carlyle Ruiters, Zukhanye Mnyabiso, Luvo Hubela, Xolelwa Mzili and Xolani Tinzi.

4 TRACKING AGAINST OUR FIVE-YEAR EE PLAN

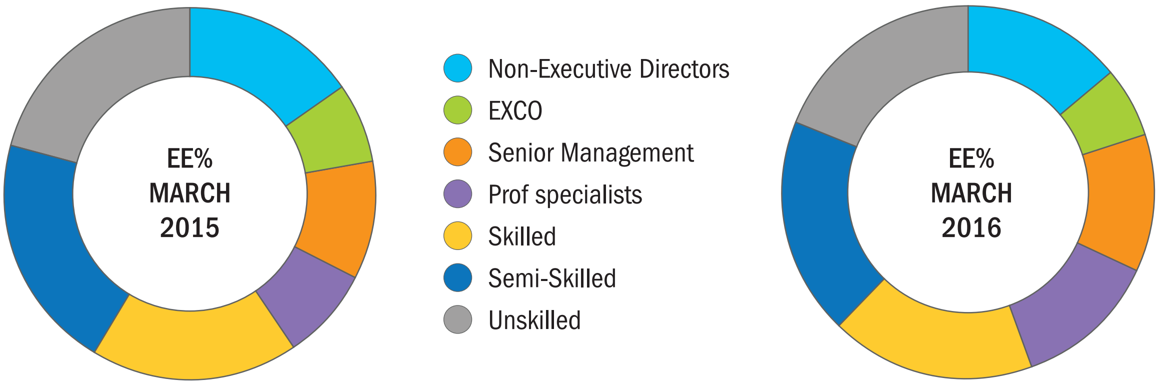
The planned company growth was seen as a great opportunity to fast-track our EE plan and increase our EE representation. The new increased establishment allowed us to set a target of 71.9% EE representation by the end of March 2016. A level of 75.5% was achieved, which significantly exceeded the target. Although we are still facing some challenges in increasing our coloured representation, we are continually investigating new methods to increase these numbers and attract candidates from this group to move towards closer alignment with the demographic of the Western Cape.

We endeavour to be transparent and fair in our remuneration practices taking cognisance of our EE targets, education levels and experience.

TABLE 4.1 EE Growth

	MARCH 2015			MARCH 2016			
Occupation level	Number of filled posts	EE representation	EE%	Number of filled posts	EE representation	EE%	%Growth/ (%Decline)
Non-Executive Directors	4	3	75%	4	3	75%	–
EXCO	3	1	33%	3	1	33%	–
Senior Management	8	4	50%	8	5	62.5%	12.5%
Prof specialists	41	16	39%	51	34	66.6%	27.6%
Skilled	17	15	88.2%	24	23	95.8%	7.6%
Semi-Skilled	11	11	100%	6	6	100%	–
Unskilled	2	2	100%	2	2	100%	–
Total	**86**	**52**	**60.5%**	**98**	**74**	**75.5%**	**15%**

*Total excludes one independent contractor



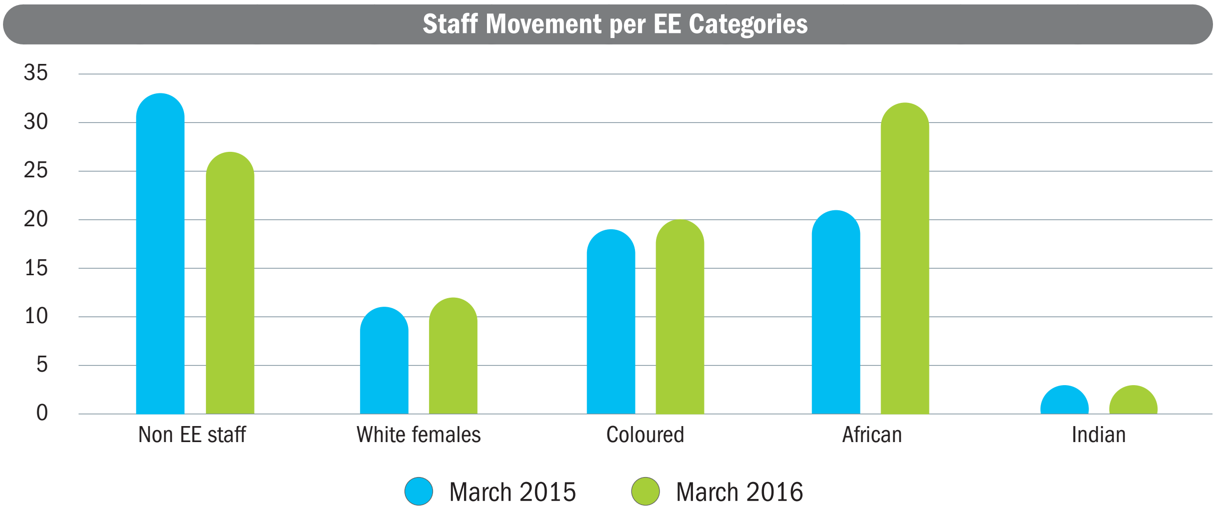


TABLE 4.2 Gender Growth

	MARCH 2015			MARCH 2016			
Occupation level	Number of posts	Female representation	Female %	Number of posts	Female representation	Female %	%Growth/ (%Decline)
Non-Executive Directors	4	0	0.0%	4	0	0.0%	–
Top Management	3	1	33.3%	3	1	33.3%	–
Senior Management	8	4	50.0%	8	3	37.5%	(12.5%)
Prof Specialist	41	8	19.5%	51	16	31.4%	11.9%
Skilled	17	10	58.8%	24	15	62.5%	3.7%
Semi-Skilled	11	4	36.7%	6	2	33.3%	(3.4%)
Unskilled	2	2	100.0%	2	2	100%	–
Total	**86**	**29**	**33.7%**	**98**	**39**	**39.8%**	**6.1%**

5 LABOUR RELATIONS

The composition of the Staff Management Forum has been revised and the management representatives now comprise Interfront's Executive Committee and Human Capital Manager, together with three staff representatives nominated by employees. This allows for meaningful engagement between the Executive Committee and staff representatives that are able to table and discuss staff concerns or matters affecting employees.

The planned company growth was seen as a great opportunity to fast-track our EE plan and increase our EE representation.

PART

E

FINANCIAL INFORMATION

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 of Interfront for the financial year ended 31 March 2016.

The external auditors are engaged to express an independent opinion on the annual financial statements of Interfront.

The 2015/2016 annual financial statements for the year ended 31 March 2016 have been audited by the external auditors and their report is presented on page 59.

The annual financial statements of Interfront set out on page 64 to page 95 have been approved.

GRAHAM RANDALL
Managing Director
Interfront

MUSTAQ ENUS-BREY
Chairperson of the Board
Interfront

2 REPORT BY THE BOARD OF DIRECTORS

The Board submits its report for the year ended 31 March 2016.

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:

1. to hold, invest in and develop customs and border management software solutions for use by border control and revenue agencies around the globe; and
2. to commercialise its software solutions to enable marketing thereof globally, while operating 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. The net surplus of the entity was R9 421 863 (2015: R2 357 554), after taxation of R3 070 416 (2015: R3 887 934).

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 Financial Statements

The preparation and fair presentation of Interfront's annual financial statements is the responsibility of the directors.

In the opinion of the directors, the annual financial statements fairly present the financial position of Interfront as at 31 March 2016 and the results of its operations and cash flow information for the year then ended.

2.5 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.

2.6 Accounting Policies

The annual financial statements are prepared in accordance with the effective standards of GRAP, as issued by the Accounting Standards Board and prescribed by the framework developed by National Treasury. More detail on the accounting policies can be found on page 68 of the annual financial statements.

2.7 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 way of an interest free shareholder's loan that has no fixed term of repayment. This loan has been subordinated to other creditors.

2.8 Distributions to Owners

No dividends were declared or paid during the year.

2.9 Board

Details of the Board members can be found under Part C: Governance.

2.10 Secretary

The Company Secretary of the entity is LL Janse van Rensburg. Although she is also a member of the Interfront Board, the Board is confident that her independence is not diluted.

"The annual financial statements are prepared in accordance with the effective standards of GRAP, as issued by the Accounting Standards Board and prescribed by the framework developed by National Treasury."

R9 421 863
2016
Net surplus

R2 357 554
2015
Net surplus

R115.7 million
2016
Net assets

R106.3 million
2015
Net assets

The preparation and fair presentation of Interfront's annual financial statements is the responsibility of the directors.

2.11 Corporate Governance

General

The Board is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the ongoing development of best practice. Interfront adheres to the statutory duties and responsibilities set out in the Companies Act and 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 can be found in Part C: Governance.

Board of Directors

The Board:

- retains full control over the entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication, both internally and externally by the entity; and
- is of a unitary structure comprising:
  - a non-executive independent director as Chairperson;
  - non-executive directors, employed by the shareholder; and
  - executive directors.

Chairperson and Managing Director

The Chairperson is a non-executive and independent director (as defined by King III). The roles of Chairperson and Managing Director are separate, with responsibilities being divided between them in such a manner, that no individual has unfettered powers of discretion.

Queen-Ethel Mnguni.

Remuneration

The remuneration of the Managing Director, the Financial Director and the Director of Operations, who are the only three executive directors of the entity, was determined by the controlling entity upon appointment and the Board will determine the increase in remuneration within limits.

Internal Audit

As permitted by the Public Finance Management Act, 2003, the entity has outsourced its internal audit function to SARS.

2.12 Controlling Entity

Interfront's controlling entity is the South African Revenue Service, established by the South African Revenue Service Act of 1997.

2.13 Auditors

In line with the requirements of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) ("PAA") and paragraph 84(3) (b) of the new Companies Act 2008, the AGSA will continue in office for the next financial period.

3 REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2016 in terms of the Companies Act and 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 in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

3.1 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 at least annually to ensure their continued relevance (Treasury Regulations 27.1.6).

The composition of the Audit Committee members is such that all Treasury Regulations and Companies Act requirements are met in terms of financial literacy and independence. The Audit Committee consisted of three external members for the period April 2015 to July 2015 as Mr Bongani Nqwababa's term as member and Chairperson ended in July 2015. For the period August 2015 to March 2016 the Audit committee consisted of two external members.

> "The Audit Committee has regulated its affairs in compliance with its Terms of Reference and has discharged all its responsibilities as contained therein."

3.2 Audit Committee Attendance

AUDIT COMMITTEE MEMBERS			
	15 May 2015	24 July 2015	27 Nov 2015
Mr Bongani Nqwababa (Chairperson Audit Committee): Executive Director & Group Chief Financial Officer Sasol Limited; B. Acc Hons (University of Zimbabwe), CA (ZIM), MBA in Finance (Universities of Manchester and Wales), Bangor Wales	○	○ (Term Ended)	
Mr Vuyo Kahla: Executive Vice President: Advisory & Assurance and Company Secretary Sasol Limited; Bachelor of Arts (Rhodes University), LLB (Rhodes University)	○	○	○
Sathie Gounden: 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 Chartered Director (SA) Executive Leadership Development Institute Programme – Harvard Business School	○	○	○

3.3 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, Treasury Regulation 27.1 and the Companies Act. The Audit Committee has regulated its affairs in compliance with its Terms of Reference and has discharged all its responsibilities as contained therein.

Interfront ICT Team: Kurt Plaatjes, Kobus Barnard and Eugene Jacobs.

3.4 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 International Frontier Technologies SOC Limited took the necessary steps to maintain the effective functioning of its Internal Audit unit. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

3.5 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 is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

SATHIE GOUNDEN
Acting Chairperson of the Audit Committee
Interfront

"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."

HIGHLIGHTS

R18.7 Million

INCREASE IN REVENUE

R7.1 Million

INCREASE IN NET SURPLUS

R47.2 Million

INCREASED IN NET CASH FLOWS FROM OPERATING ACTIVITIES

"Interfront is committed to spending money wisely and sensibly to support the overall cost containment drive within government."

4 FINANCIAL REPORT

4.1 Overview

Interfront is committed to spending money wisely and sensibly to support the overall cost containment drive within government. Our continued prudent financial management practices resulted in an increased surplus before tax percentage of 13.1% compared to 8.2% in the prior year.

4.2 General results summary

Total revenue for the year increased by 24.6% to R95 million (2015: R76.3 million), increasing the after tax return on equity to 10.2% (2015: 2.5%).

The gross margin (services revenue less employee cost) improved marginally to 31.7% (2015: 30%) due to an increase in recoverability to 78.4% versus 76% in 2015.

Net surplus increased from R2.3 million to R9.4 million.

Net assets increased to R115.7 million (2015: R106.3 million).

4.3 Liquidity and Capital Resources

The company generated positive cash flows from operating activities of R47.2 million compared to a negative cash flow from operating activities of R12.9 in the prior year. The significant improvement is mainly attributable to a substantial reduction in debtors.

The company has no significant long-term liabilities, other than the deferred tax liability that arose mainly due to a difference in the tax and accounting write-off periods of intangible assets. Significant current liabilities comprise trade payables and provisions.

Cash and cash equivalent balances increased considerably to R52.9 million (2015: R8.4 million).

The trade and other receivables balance remains significant, although there has been a 39.7% reduction from the prior year. The amount is mainly current and past experience indicates that the risk of non-recovery is negligible.

Trade and other payables increased mainly due to a once-off accrual raised for a special bonus that was approved by the Board before year-end. Payment was made in April 2016. Net of this accrual, trade payables decreased by 6.3%.

Vuyo Moni, Thapelo Mohotsi and Lindiso Mlenga.

Our invoicing structure changed during the year under review. The development of modules is now divided into sprints which provide for measurable deliverables at six to eight week intervals. Billing takes place on acceptance. This has improved the correlation of invoicing to measurable outputs and accounts for the increased billing at the end of March and the related 279% increase in value-added tax (VAT) payable.

The cash outflow, as a result of income tax, during the past two financial years has been minor due to large timing differences resulting from the differences in treatment as per the Income Tax Act and accounting standards. Provision has been made for future cash outflows in the deferred tax liability to cover the tax payable that will arise in future periods when the impact of these differences will reverse.

The company has no significant commercial commitments or obligations other than the lease of the premises it currently occupies, the latest of which expires in 2020. The contractual obligations for future years are summarised in note 21 to the annual financial statements.

Based on the company's current plans and projections, management are confident that the company has the funds necessary to meet its existing and future financial operating commitments.

12.6%

INCREASE IN AVERAGE EMPLOYEE NUMBERS

19.9%

INCREASE IN EMPLOYEE COST

18.1%

INCREASE IN OTHER EXPENDITURE

4.4 Financial Performance Results Overview

Total revenue and services revenue increased by 24.6% and 22.8% respectively. The increase in revenue is primarily the result of an increase in demand for development services from our main customer. The NCAP resulted in an increased need for changes to the current customs system and in return, additional resources were needed to address system implementation timeline pressures. Further increases are expected in the next two years, after which activity levels are likely to decline again and normalise at 2015 levels.

The increased demand for development services resulted in the need to increase the staff complement; consequently average employee numbers increased by 12.6% to 90.8 (2015: 80.7). In line with the growth in the establishment together with the impact of inflation, employee cost increased by 19.9%. Other expenditure, excluding non-cash items, increased by 18.1% mainly due to the same reason.

4.5 Foreign Exchange

We continue to earn a small portion of revenue from our European customer. Although a loss from exchange transactions was recognised in the statement of financial performance, the revenue amount includes a R1.02 million gain compared to revenue expected at the 31 March 2015 exchange rate. Although the Rand is very volatile currently, our services that are not billed in Rand comprise only 9.6% of revenue and we do not hedge against future exchange fluctuations.

5 AUDIT REPORT

We are pleased to note that the continued efforts have once again resulted in an unqualified audit report.

Lynn Solomons, Athenkosi Nkole and Kanelo Sefoloko.

6 REPORT OF THE AUDITOR-GENERAL TO THE SOUTH AFRICAN REVENUE SERVICE ON THE INTERNATIONAL FRONTIER TECHNOLOGIES SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the International Frontier Technologies SOC Limited, trading as Interfront, set out on pages 64 to 95, which comprise the statement of financial position as at 31 March 2016, 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, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with the 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) (PFMA), and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), 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 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.

REPORT OF THE AUDITOR-GENERAL TO THE SOUTH AFRICAN REVENUE SERVICE ON THE INTERNATIONAL FRONTIER TECHNOLOGIES SOC LIMITED

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Interfront as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP, the requirements of the PFMA and Companies Act.

Emphasis of Matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Significant Uncertainty

8. As disclosed in note 32 to the financial statements, a decision was made to incorporate Interfront into South African Revenue Service. This decision is however still subject to approval by the minister of finance, as prescribed by section 54(2) (d) of the PFMA.

Additional Matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other reports required by the Companies Act

10. As part of my audit of the financial statements for the year ended 31 March 2016, I have read the director's report, audit committee's report and the company secretary's certificate for the purpose of determining 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, I do not express an opinion on them.

Report on other Legal and Regulatory Requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and 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.

REPORT OF THE AUDITOR-GENERAL TO THE SOUTH AFRICAN REVENUE SERVICE ON THE INTERNATIONAL FRONTIER TECHNOLOGIES SOC LIMITED

Predetermined Objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objective presented in the annual performance report of Interfront for the year ended 31 March 2016:

- Objective 1: Become a strategic and preferred partner to existing clients, on pages 20 to 23.

13. 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*.

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

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

Additional Matters

16. Although I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective, I draw attention to the following matters:

Achievement of Planned Targets

17. Refer to the annual performance report on pages 20 to 29 for information on the achievement of the planned targets for the year.

Adjustment of Material Misstatements

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the selected objective as variance explanations for partially and over achieved targets were not included. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT OF THE AUDITOR-GENERAL TO THE SOUTH AFRICAN REVENUE SERVICE ON THE INTERNATIONAL FRONTIER TECHNOLOGIES SOC LIMITED

Compliance with Legislation

19. I performed procedures to obtain evidence that Interfront 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

20. 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

Pretoria
28 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

BOARD'S RESPONSIBILITIES AND APPROVAL

The Board is required by the Public Finance Management Act (Act 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 period 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 places 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 the 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 of 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 59 to 62.

The annual financial statements set out on page 64 to 94, which have been prepared on the going concern basis, were approved by the Board on 28 July 2016 and were signed on its behalf by:

GRAHAM RANDALL
Managing Director

MUSTAQ ENUS-BREY
Chairman of the Board

STATEMENT OF FINANCIAL POSITION

FIGURES IN RAND	NOTE(S)	2016	2015
Assets			
Current Assets			
Current tax receivable		–	4 822 888
Trade and other receivables	4	23 234 234	38 534 104
Cash and cash equivalents	5	52 933 190	8 392 465
		76 167 424	**51 749 457**
Non-Current Assets			
Property, plant and equipment	6	3 703 820	4 267 811
Intangible assets	7	56 520 434	62 835 547
		60 224 254	**67 103 358**
Total Assets		**136 391 678**	**118 852 815**
Liabilities			
Current Liabilities			
Current tax payable	24	167 597	–
Finance lease obligation	8	33 941	61 820
Trade and other payables	9	7 535 098	5 178 096
VAT payable	10	2 307 886	608 681
Provisions	11	5 095 168	3 915 815
		15 139 690	**9 764 412**
Non-Current Liabilities			
Finance lease obligation	8	–	33 942
Operating lease liability	12	276 034	42 016
Deferred tax	13	5 282 128	2 740 482
		5 558 162	**2 816 440**
Total Liabilities		**20 697 852**	**12 580 852**
Net Assets		**115 693 826**	**106 271 963**
Net Assets			
Share capital	14	1	1
Shareholder loan – equity	15	92 595 410	92 595 410
Accumulated surplus		23 098 415	13 676 552
Total Net Assets		**115 693 826**	**106 271 963**

STATEMENT OF FINANCIAL PERFORMANCE

FIGURES IN RAND	NOTE(S)	2016	2015
Revenue			
Rendering of services	16	93 040 483	75 754 006
Loss from exchange transactions		(35 025)	(311 400)
Other income		–	840
Interest received		2 011 166	835 393
Total revenue		**95 016 624**	**76 278 839**
Expenditure			
Employee costs		(63 575 859)	(53 027 764)
Depreciation and amortisation	6 & 7	(9 457 909)	(8 967 133)
Finance costs	17	(8 643)	(15 978)
Repairs and maintenance		(186 620)	(127 443)
Administrative expenses		(8 400 142)	(7 188 996)
Professional services		(895 172)	(706 037)
Total expenditure		**(82 524 345)**	**(70 033 351)**
Operating surplus	18	**12 492 279**	**6 245 488**
Surplus before taxation		**12 492 279**	**6 245 488**
Taxation	19	3 070 416	3 887 934
Surplus for the period		**9 421 863**	**2 357 554**

STATEMENT OF CHANGES IN NET ASSETS

FIGURES IN RAND	SHARE CAPITAL	SHAREHOLDER'S LOAN – EQUITY	ACCUMULATED SURPLUS	TOTAL NET ASSETS
Balance at 01 April 2014	**1**	**92 711 836**	**11 318 999**	**104 030 836**
Changes in net assets				
Surplus for the year as previously reported	–	–	2 300 100	2 300 100
Transfer of assets	–	(116 426)	–	(116 426)
Total changes	**–**	**(116 426)**	**2 300 100**	**2 183 674**
Opening balance as previously reported	1	92 595 410	13 619 099	106 214 510
Adjustments				
Prior-year adjustments	–	–	57 453	57 453
Balance at 01 April 2015 as restated	**1**	**92 595 410**	**13 676 552**	**106 271 963**
Changes in net assets				
Surplus for the year	–	–	9 421 863	9 421 863
Total changes	**–**	**–**	**9 421 863**	**9 421 863**
Balance at 31 March 2016	**1**	**92 595 410**	**23 098 415**	**115 693 826**
Note(s)	14	15		

CASH FLOW STATEMENT

FIGURES IN RAND	NOTE(S)	2016	2015
Cash flows from operating activities			
Receipts			
Rendering of services		108 340 353	47 353 337
Other income		–	840
Interest received		2 011 166	835 393
Foreign exchange loss		(35 025)	(311 400)
		110 316 494	**47 878 170**
Payments			
Employee cost		(63 575 859)	(53 027 764)
Suppliers		(6 856 801)	(6 666 701)
Movement in provisions		1 179 353	–
Taxes on surpluses	24	4 461 714	(1 240 653)
VAT movement		1 699 205	194 615
		(63 092 388)	**(60 740 503)**
Net cash flows from operating activities	**20**	**47 224 106**	**(12 862 333)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(998 351)	(2 066 899)
Proceeds from sale of property, plant and equipment	6	30 690	9 158
Purchase of other intangible assets	7	(1 645 258)	(259 512)
Net cash flows from investing activities		**(2 612 919)**	**(2 317 253)**
Cash flows from financing activities			
Finance lease payments		(70 462)	(70 462)
Net cash flows from financing activities		**(70 462)**	**(70 462)**
Net increase / (decrease) in cash and cash equivalents		**44 540 725**	**(15 250 048)**
Cash and cash equivalents at the beginning of the year		8 392 465	23 642 513
Cash and cash equivalents at the end of the period	**5**	**52 933 190**	**8 392 465**

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 1 of 1999).

These annual financial statements have been prepared on the accrual basis of accounting and are in accordance with the 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.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management are 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 which 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 flows 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 impact 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 and economic factors such as inflation, exchange rates and interest rates.

ACCOUNTING POLICIES

1.1 Significant judgements and sources of estimation uncertainty (continued)

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.

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

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

Intangible assets

The entity assesses at each reporting period whether there is any indication that the cash-generating intangible assets may be impaired. This assessment requires management to make assumptions and it is reasonably possible that these assumptions may change, which may then impact our estimations and may then require material adjustment to the carrying value of the intangible asset.

ACCOUNTING POLICIES

1.2 Property, plant and equipment

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.

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.

Property, plant and equipment is 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	5–10 years
IT equipment	3–5 years
Leasehold improvements	Over the life of the asset or the lease period, whichever is shorter
Security equipment	5 years
Generators	10 years
Office equipment – leased	Over the term of the lease

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.

ACCOUNTING POLICIES

1.3 Intangible assets

Intangible assets are recognised if it is probable that future economic benefits will flow to the entity from the intangible asset and the cost of the intangible asset can be reliably measured.

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

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

The following amortisation periods, based on the estimated useful lives of the respective assets, were applied:

Item	Useful life
Intellectual property rights	10 years
IT software	3–5 years

Intangible assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use.

1.4 Financial instruments

Classification

The entity has the following types of financial assets 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

The entity has the following types of financial liabilities 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.

ACCOUNTING POLICIES

1.4 Financial instruments (continued)

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; or
- Financial instruments at amortised cost.

Impairment and uncollectability of financial assets

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

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 or are settled or waived; or
- 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

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.

ACCOUNTING POLICIES

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, 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.

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).

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 expensed in each period.

ACCOUNTING POLICIES

1.6 Leases (continued)

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 is recognised as an operating lease asset or liability.

1.7 Impairment of cash-generating assets

Identification

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 estimates the recoverable amount of the asset.

1.8 Impairment of non-cash-generating assets

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.

1.9 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after the deduction of all of its liabilities. Ordinary shares as well as the loan received from the shareholder are classified as equity.

1.10 Employee benefits

Short-term employee benefits

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.

ACCOUNTING POLICIES

1.10 Employee benefits (continued)

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 measures 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: 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.

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.

ACCOUNTING POLICIES

1.12 Revenue from exchange transactions

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 time frame, 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 has been executed.

1.13 Interest received

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 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 the translation of 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 the foreign currency amount to the exchange rate between the rand and the foreign currency at the date of the cash flow.

ACCOUNTING POLICIES

1.15 Comparative figures

Where necessary, comparative figures have been restated. Refer to note 27 for more detail.

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 person in their dealings with the entity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2 BASIS OF PREPARATION

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. The entity has not adopted any new accounting policies in the current financial year.

3 NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations issued, but not yet effective

The following standard of GRAP which has been issued but is not yet effective, is not likely to affect the annual financial statements materially when it is adopted:

Standard/ Interpretation:	Effective date:
GRAP 20 Related-Party Disclosures	Not yet determined

4 TRADE AND OTHER RECEIVABLES

FIGURES IN RAND	2016	2015
Trade debtors	21 824 151	37 363 565
Prepayments	1 385 224	1 155 014
Deposits	24 859	15 305
Sundry receivables	–	220
	23 234 234	**38 534 104**

Fair value of trade and other receivables

	2016	2015
Trade and other receivables	23 234 234	38 534 104

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

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 to be non-recoverable. At 31 March 2016, R1 672 957 (2015: R 31 425 579) was past due but not impaired.

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

	2016	2015
1 month past due	–	6 944 702
2 months past due	–	4 094 496
3 months or more past due	1 672 956	20 386 381

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5 CASH AND CASH EQUIVALENTS

FIGURES IN RAND	2016	2015
Cash and cash equivalents consist of:		
Cash on hand	7 500	7 500
Bank balances	52 925 690	8 384 965
	52 933 190	**8 392 465**

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

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

6 PROPERTY, PLANT AND EQUIPMENT

FIGURES IN RAND	2016			2015		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fixtures	934 126	(512 310)	421 816	925 573	(431 334)	494 239
Office equipment – leased	153 379	(127 816)	25 563	153 379	(76 690)	76 689
IT equipment	10 281 445	(7 605 429)	2 676 016	9 870 138	(6 906 737)	2 963 401
Leasehold improvements	4 563 086	(3 999 512)	563 574	4 563 086	(3 866 083)	697 003
Generators	203 544	(190 453)	13 091	203 544	(174 645)	28 899
Security equipment	20 108	(16 348)	3 760	20 108	(12 528)	7 580
Total	**16 155 688**	**(12 451 868)**	**3 703 820**	**15 735 828**	**(11 468 017)**	**4 267 811**

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals	Depreciation	Impairment on disposal	Total
Furniture and fixtures	494 239	35 528	(8 780)	(99 171)	–	421 816
Office equipment – leased	76 689	–	–	(51 126)	–	25 563
IT equipment	2 963 401	962 823	(56 025)	(1 194 182)	–	2 676 017
Leasehold improvements	697 003	–	–	(133 430)	–	563 573
Generators	28 899	–	–	(15 808)	–	13 091
Security equipment	7 581	–	–	(3 821)	–	3 760
	4 267 812	**998 351**	**(64 805)**	**(1 497 538)**	**–**	**3 703 820**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment – 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Furniture and fixtures	352 184	273 779	(37 065)	–	(94 659)	–	494 239
Office equipment – leased	127 816	–	–	–	(51 127)	–	76 689
IT equipment	2 187 081	1 793 120	–	(105 566)	(911 234)	–	2 963 401
Leasehold improvements	830 432	–	–	–	(133 429)	–	697 003
Generators	44 707	–	–	–	(15 808)	–	28 899
Security equipment	11 401	–	–	–	(3 820)	–	7 581
	3 553 621	**2 066 899**	**(37 065)**	**(105 566)**	**(1 210 077)**	**–**	**4 267 811**

FIGURES IN RAND	2016	2015
Assets subject to finance lease (Net carrying amount)		
Office equipment	25 563	76 689
Other information		
Property, plant and equipment fully depreciated to residual value and still in use		
Property, plant and equipment	343 917	338 140

Fully depreciated items still in use will systematically be replaced.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7 INTANGIBLE ASSETS

FIGURES IN RAND	2016			2015		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Intellectual property and other rights	73 582 623	(19 285 768)	54 296 855	73 582 623	(11 927 506)	61 655 117
IT software	3 781 220	(1 557 641)	2 223 579	2 135 961	(955 531)	1 180 430
Total	**77 363 843**	**(20 843 409)**	**56 520 434**	**75 718 584**	**(12 883 037)**	**62 835 547**

Reconciliation of intangible assets – 2016

	Opening balance	Additions	Amortisation	Total
Intellectual property and other rights	61 655 117	–	(7 358 262)	54 296 855
IT software	1 180 431	1 645 258	(602 110)	2 223 579
Total	**62 835 548**	**1 645 258**	**(7 960 372)**	**56 520 434**

Reconciliation of intangible assets – 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Intellectual property and other rights	69 013 380	–	–	(7 358 263)	61 655 117
IT software	1 330 573	259 511	(10 860)	(398 794)	1 180 430
Total	**70 343 953**	**259 511**	**(10 860)**	**(7 757 057)**	**62 835 547**

Details of impairment test

An impairment test was performed to determine whether the intangibles assets' value should be impaired. The effective date of the valuation is 31 March 2016. The valuation was performed by the independent valuator, KPMG. KPMG is not connected to the entity and has experience in valuing similar assets.

The valuation method 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 assets, it is relieved from making royalty payments. The resulting cash flow savings attributed to the intangible assets are estimated over the intangible assets remaining useful lives 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 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 following inputs were used:
IP valuation 2017 to 2026 forecast

Royalty rate	12.80%
Calculate weighted average cost of capital	21.90%
Tax rate	28.00%

The impairment test did not indicate an impairment of the intellectual property.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7 INTANGIBLE ASSETS (continued)

Useful life

Amortisation of the intellectual property started in August 2013 when the IP became available for use. Management assessed the useful life of the IP, based on the estimated forecast commercial and economic realities, as ten years.

8 FINANCE LEASE OBLIGATION

FIGURES IN RAND	2016	2015
Minimum lease payments due		
– within one year	35 231	70 463
– in second to fifth year inclusive	–	35 231
	35 231	105 694
Less: future finance charges	(1 290)	(9 932)
Present value of minimum lease payments	**33 941**	**95 762**
Present value of minimum lease payments due		
– within one year	33 941	61 820
– in second to fifth year inclusive	–	33 942
	33 941	**95 762**
Non-current liabilities	–	33 942
Current liabilities	33 941	61 820
	33 941	**95 762**

Certain photocopiers were capitalised and the corresponding finance lease liability raised. The leases are repayable in 36 monthly instalments. The lease term is three years and the average effective interest rate was 10.01% (2015: 9.55%). Total payments of R70 462 were made during the year for the three machines. Refer note 6 – Office equipment-leased. The final payment will be made in September 2016.

9 TRADE AND OTHER PAYABLES

Trade payables	1 028 981	572 187
Accrued leave pay	1 559 718	1 693 835
PAYE payable	1 095 395	999 735
Other accruals	2 842 838	931 251
Other salary-related accruals	152 526	325 543
Revenue billed in advance	855 640	655 545
	7 535 098	**5 178 096**

Trade and other payables are carried at original invoice amounts, which approximates fair value due to their short-term nature.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10 VAT PAYABLE

FIGURES IN RAND	2016	2015
VAT payables	2 307 886	608 681

11 PROVISIONS

Reconciliation of provisions – 2016

	Opening balance	Additions	Utilised during the year	(Over)/Under provided during the year	Total
Performance bonus	3 915 815	5 095 168	(3 916 090)	275	5 095 168

Reconciliation of provisions – 2015

	Opening balance	Additions	Utilised during the year	(Over)/Under provided during the year	Total
Performance bonus	3 372 221	3 915 815	(3 324 060)	(48 161)	3 915 815

Performance bonuses represent the estimated obligation for the current year.

12 OPERATING LEASE

Non-current liabilities	(276 034)	(42 016)
Current liabilities	–	–
	(276 034)	**(42 016)**

Operating leases represent rentals payable by the entity for its office premises and rental of office plants.
The office lease is for a period of five years and expires 31 January 2020. The lease agreement escalates annually with 8%.

The plant hire is for a period of two years and expires 31 August 2017. The lease agreement escalates annually with between 7% and 10%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

13 DEFERRED TAX

FIGURES IN RAND	2016	2015
Deferred tax liability		
Deferred tax	(5 282 128)	(2 740 482)
Deferred tax asset		
Reconciliation of deferred tax (liability) / asset		
At beginning of year	(2 740 482)	1 147 452
Temporary difference on prepayments	(221 754)	(310 189)
Reversing temporary difference on tangible fixed assets	(104 567)	(310 772)
Movement in provision and accruals	1 099 625	154 608
Reversing temporary difference on finance lease	(17 309)	(12 833)
(Reversing) / Originating temporary difference on operating lease	65 523	(45 584)
Temporary difference on intellectual property	(3 363 164)	(3 363 164)
	(5 282 128)	**(2 740 482)**

14 SHARE CAPITAL

Authorised		
1000 ordinary shares of R1 each	1 000	1 000
Reconciliation of number of shares issued:		
Reported as at the beginning of the financial year	1	1

999 Unissued ordinary shares are under the control of the Board in terms of the Memorandum of Incorporation.

Issued		
Ordinary	1	1

Share capital is fully paid and has no restrictions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15 SHAREHOLDER'S LOAN

FIGURES IN RAND	2016	2015
The loan is unsecured, bears no interest and has no fixed date of repayment.		
Loan at the beginning of the year	92 595 410	92 711 836
Transfer of assets	–	(116 426)
Shareholder loan recognised in equity	**92 595 410**	**92 595 410**

16 REVENUE

Rendering of services: SARS	84 145 848	66 449 722
Rendering of services: Luxembourg	8 894 635	9 304 284
Loss from exchange transactions	(35 025)	(311 400)
Other income	–	840
Interest received	2 011 166	835 393
	95 016 624	**76 278 839**
The amounts included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	93 040 483	75 754 006
Loss from exchange transactions	(35 025)	(311 400)
Other income	–	840

17 FINANCE COSTS

Finance leases	8 643	15 978

18 OPERATING SURPLUS

Operating surplus for the year is stated after accounting for the following:		
Loss on disposal of assets	(34 115)	(27 907)
Amortisation of intangible assets	7 960 373	7 757 056
Depreciation on property, plant and equipment	1 497 537	1 210 077

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

19 TAXATION

FIGURES IN RAND	2016	2015
Major components of the tax expense		
Current		
Local income tax – current period	528 771	–
Deferred		
Deferred tax movement current year	2 541 645	3 887 934
	3 070 416	**3 887 934**
Reconciliation of the tax expense		
Reconciliation between accounting surplus and tax expense:		
Accounting surplus	12 492 277	6 245 487
Tax at the applicable tax rate of 28%	3 497 838	1 748 736
Tax effect of adjustments on taxable income		
Originating temporary differences	(2 541 646)	(3 887 935)
Permanent differences	656 318	656 318
Assessed tax loss available for future use	–	1 498 967
Utilised prior-year unrecognised tax losses	(1 083 739)	–
Prior-year correction (Refer to note 27)	–	(16 086)
	528 771	**–**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

20 CASH GENERATED FROM OPERATIONS

FIGURES IN RAND	2016	2015
Surplus	9 421 861	2 357 553
Adjustments for:		
Depreciation and amortisation	9 457 909	8 967 133
Loss on disposal of assets	34 115	27 907
Finance costs – Finance leases	8 643	15 978
Movements in operating lease assets and liabilities	234 018	(173 058)
Movements in provisions	1 179 353	543 594
Movement in tax receivable and payable	4 990 485	(1 240 653)
Annual charge for deferred tax	2 541 645	3 887 934
Changes in working capital:		
Trade and other receivables	15 299 870	(28 400 669)
Trade and other payables	2 357 002	957 331
VAT	1 699 205	194 617
	47 224 106	**(12 862 333)**

21 COMMITMENTS

Authorised operational expenditure		
Already contracted for but not provided for		
– HR-Related	62 693	59 708
– IT services	172 108	214 235
– Office services	6 954	1 815
	241 755	**275 758**
Operating leases – as lessee (expense)		
Minimum lease payments due		
– within one year	1 858 780	1 680 239
– in second to fifth year inclusive	5 976 067	7 770 995
	7 834 847	**9 451 234**

Operating lease payments predominantly represent rentals payable by the entity for its office premises. Refer to note 12 for more detail.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

22 EMPLOYEE BENEFIT OBLIGATIONS

FIGURES IN RAND	2016	2015
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 Allan Gray Retirement Annuity 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 Allan Gray Retirement Annuity Fund.

The entity is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes	3 455 319	2 700 840

23 AUDITORS' REMUNERATION

External audit: Fees	579 518	359 620
Subsistence and travel: External audit	48 632	113 177
Internal audit: Fees	224 940	185 032
Subsistence and travel: Internal audit	42 082	48 208
	895 172	**706 037**

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 2016 financial year. This practice will continue into the future.

24 TAX REFUNDED (PAID)

Balance at beginning of the year	4 822 888	3 582 235
Current tax for the year recognised in surplus or loss	(528 771)	–
Balance at end of the year	167 597	(4 822 888)
	4 461 714	**(1 240 653)**

Tax balances arise from estimations made for provisional tax payments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

25 RELATED PARTIES

FIGURES IN RAND

Relationships

Controlling entity	South African Revenue Service
Companies in which key members of management have significant influence	Tsohle Business Solutions (Pty) Ltd (24,5% effective interest) Tatis Africa (Pty) Ltd (17,88% effective interest)
Key members of management and directors	M.A. Enus-Brey – Chairman of the Board J.J. Louw – Non-Executive Director J.M. Makwakwa – Non-Executive Director M.P. Matlwa – Non-Executive Director G.O. Randall – Managing Director J.M. Robertson – Operations Director L.L. Janse van Rensburg – Financial Director
Key members of management who are employed by the shareholder	J.J. Louw J.M. Makwakwa M.P. Matlwa

Related-party balances	2016	2015
Loan account – Owing to related parties		
South African Revenue Service	92 595 410	92 595 410
Trade receivables		
South African Revenue Service	21 628 229	34 741 385
Trade payables		
South African Revenue Service	109 548	98 941
Related party transactions		
Rendering of services to related parties		
South African Revenue Service	84 145 848	66 449 721
Transfer of property, plant and equipment to		
South African Revenue Service	–	116 426

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

25 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.

An employee of Interfront, W van Wyk, was a close family member of the operations director for a portion of the financial year by means of marriage and received remuneration for services provided. The employee resigned in the third quarter of the year.

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 (e.g. 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.

Refer to note 26, directors' emoluments for disclosure of transactions with directors.

26 DIRECTORS' EMOLUMENTS

FIGURES IN RAND

Executive

2016	Salary	Bonus	Substistance and travel	Company contributions	Total
J.M. Robertson	2 123 274	426 814	43 733	24 182	2 618 003
G.O. Randall	1 989 306	400 705	62 055	–	2 452 066
L.L. Janse van Rensburg	1 057 060	218 672	26 945	11 999	1 314 676
	5 169 640	**1 046 191**	**132 733**	**36 181**	**6 384 745**

2015	Salary	Bonus	Substistance and travel	Company contributions	Total
J.M. Robertson	2 026 596	390 000	86 433	22 376	2 525 405
G.O. Randall	1 886 393	260 000	31 445	–	2 177 838
L.L. Janse van Rensburg	992 262	128 000	18 279	10 893	1 149 434
	4 905 251	**778 000**	**136 157**	**33 269**	**5 852 677**

Non-executive

2016	Board fees	Committee fees	Total
M.A. Enus-Brey	33 286	2 918	36 204

2015	Board fees	Committee fees	Total
M.A. Enus-Brey	10 815	808	11 623

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27 RESTATEMENT OF PRIOR PERIOD FIGURES

The negotiations for the lease agreement were finalised early in the 2016/17 financial year and back-dated to February 2015. The amounts have been corrected to reflect the position as per the new agreement.

The above resulted in adjustments as follows:

Statement of financial position	2016	2015
Decrease in operating lease liability	–	10 259
Increase in trade and other receivables	–	47 194
Increase opening accumulated surplus	–	(57 453)
Statement of financial performance		
Decrease in administration expense	–	57 453
Increase in surplus before tax	–	(57 453)
Cash-flow statement		
Cash flow from operating activities		
Decrease in rendering of services	–	47 194
Decrease in suppliers	–	(47 194)
	–	–

28 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 disclosed in notes 8 and 9, cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

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 and has no fixed term of repayment.

Financial risk management

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28 RISK MANAGEMENT (continued)

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.

The table below analyses the entity's 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 insignificant.

FIGURES IN RAND

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	–	–	–	92 595 410
Trade and other payables	7 535 101	–	–	–
Finance lease obligation	35 231	–	–	–
Operating lease contractual amounts	1 858 780	5 976 067	–	–

At 31 March 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	–	–	–	92 595 410
Trade and other payables	5 178 096	–	–	–
Finance lease obligation	61 820	33 942	–	–
Operating lease contractual amounts	1 833 792	1 980 496	6 500 675	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28 RISK MANAGEMENT (continued)

Interest rate risk

The entity's interest rate risk arises from amounts held in short-term cash balances. The entity's income and operating cash flows are substantially independent of changes in the market interest rate in relation to these balances.

FIGURES IN RAND

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	9.25%	23 234 234	–	–	–	–
Cash in current banking institutions	5.50%	52 933 190	–	–	–	–
Trade and other payables – normal credit terms	9.63%	(7 535 101)	–	–	–	–
Finance lease obligation	9.63%	(35 231)	–	–	–	–
Operating lease obligation	9.63%	(1 858 780)	(5 976 066)	–	–	–
Loan from shareholder	–%	–	–	–	–	(92 595 410)

Credit risk

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

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

Financial instrument	2016	2015
Cash and cash equivalents	52 933 190	8 392 465
Trade and other receivables	23 234 234	38 486 910

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28 RISK MANAGEMENT (continued)

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 and recognised assets and liabilities.

The entity does not currently hedge foreign exchange fluctuations.

FIGURES IN RAND

Foreign currency exposure at statement of financial position date	2016	2015
Current assets		
Trade debtor (Euro)	–	2 622 180
Current liabilities		
Trade creditor (Euro)	–	65 555
Trade creditor (AUD)	2 211	–
Payment received in advance (Euro)	855 640	–
Exchange rates used for conversion of foreign items were:		
AUD	11.3646	9.7726
Euro	16.8338	13.1109

29 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. A major portion of revenue is currently attributable to a single customer, the shareholder. This is expected to continue in the near future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30 EVENTS AFTER THE REPORTING DATE

Interfront is not aware of any matters or circumstances arising since the end of the financial period that can impact materially on the financial state of the entity other than that disclosed in note 29.

31 RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

SARS as principal of its wholly owned subsidiary, incorporates Interfront in its parliamentary and ultimate statutory accountability 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.

32 OTHER MATTER

A decision was made to incorporate Interfront into SARS. This decision is however subject to approval by the Minister of Finance as the Executive Authority as required by section 54 (2)(d) of the PFMA.

LIST OF ABBREVIATIONS / ACRONYMS

ADA	Administration des Douanes et Accises
AGSA	Auditor-General South Africa
BPM	Business Process Management
BRS	Business Requirement Specification
CCA	Customs Control Act
CDA	Customs Duty Act
CDC	Customs Duty Calculator
CMS	Customs Management Solution
COP	Customs Operations Portal
CPS	Cargo Processing System
CTC	Cost to Company
CTP	Customs Trader Portal
Companies Act	Companies Act. No. 71 of 2008
COTS	Commercially off the Shelf
C3P	Customs Third Party
DPS	Declaration Processing System
DTMC	Digital and Technical Management Committee (SARS)
EDA	Excise Duty Act
EE	Employment Equity
EU	European Union
EXCO	Executive Committee
GIBS	Global Executive Development Programme
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
iCBS	Interfront Customs and Border Management Solutions
ICT	Information and Communications Technology
IT	Information Technology
LCM	License and Certificate Management
MPR	Manifest Processing System
MSA	Master Services Agreement
NCAP	New Customs Acts Programme
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
PMO	Project Management Office
RLA	Registration Licensing and Accreditation
SAICA	South African Institute of Chartered Accountants
SARS	South African Revenue Service
SDP	Skills Development Programme
SLA	Service Level Agreement
SMART	Specific, Measurable, Achievable, Relevant and Time-bound
SMME	Small, Medium and Micro Enterprises
SOA	Service-Orientated Architecture
SOC	State Owned Company
TMS	Tariff Management System
VAT	Value Added Tax
WCO	World Customs Organization

interfront

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