



**SARS Deviations & Variations
2017/2018
SCOPA Presentation**

Deviations and Expansions/Variations – Definitions

Deviations is considered to be instances where the Accounting Authority either in a new transaction or in replacing an existing transaction (under new contractual terms) doesn't follow a competitive bidding process for a number of reasons i.e. impracticality, sole source, emergency, etc.

Variation/Expansion is considered to be instances where the Accounting Authority elects to increase time or scope on an existing contract/order prior to its expiry for reasons of continuity and completion of outstanding deliverables.

Executive Summary (1/2)

- Overall expenditure for the year 2017/18 was **R10.1bn** which is split between manpower related costs of **R7.4bn** and external expenditure of **R2.7bn**. SARS received grants from National Treasury to the total of **R10.2bn** and collected **R1216.6bn** in revenue which is in **excess of 90% of government revenue**.
- In FY2017/18 a number of our leases expired and required renewal and **accounted for more than 70%** of the deviations and expansions. A bulk approach **covering 3 years** was taken.
- Prior to engaging in any reportable deviation or expansion/variation **prior approval** from National Treasury (NT) **Office of the Chief Procurement Officer** is sought.
- Implementation of Deviations is informed by the provisions of **Regulations in particular 16A6.4** – this is further supported by NT guidelines as provisioned in the **Instruction Note 3 of 2016/17**.

Executive Summary (2/2)

- In the year 2017/18 a total of **R1.2bn in deviations and variations/expansions** was reported (**against R 2.2bn in prior year**). The cited numbers are current year approvals however the **expenditure will be incurred over a number of years**.
- Actively analysed its demand to create visibility on service providers that are **sole/single source** as these are likely to drive deviations in the future e.g. Microsoft, IBM, CISCO, Leases, etc.
- A number of initiatives to reduce deviations and variations/deviations have been activated in the past 24 to 36 months including **reliance on NT/SITA Framework Agreements** (circular 10 of 2017 and circular 3 of 2018) whilst ensuring **alignment with the National Department of Public Works** on handling of Leased buildings.
- Instances have been noted where **misalignment in the naming of transactions between SARS SCM and NT OCPO**, these account for some of the disparities that may be noted in the composition of reported numbers.

Deviations in Prescripts & Statutes

Treasury Regulation 16A6.4 provides as follows:

*“If in a specific case it is **impractical** to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from competitive bids must be recorded and approved by the accounting officer or accounting authority.”*

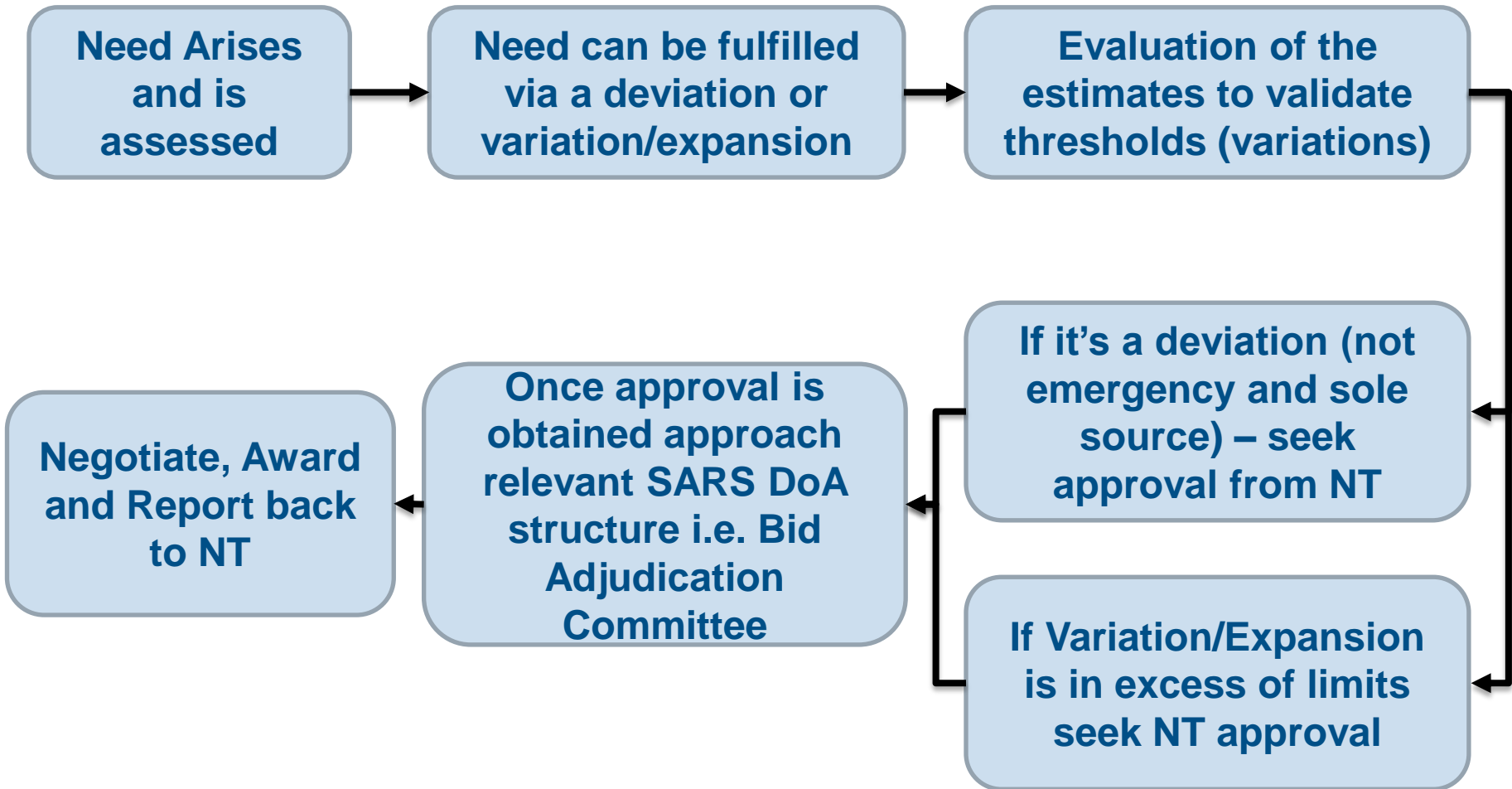
- The accounting officer/Authority must only deviate from inviting competitive bids in cases of **emergency** and **sole supplier status**.
- An **emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment** which calls an agency to action and there is insufficient time to invite competitive bids.
- **Sole source procurement may occur when there is a evidence that only one supplier possesses the unique and singularly available capacity** to meet the requirements of the institution.
- The Accounting Officer/Authority **must invite as many supplier as possible** and select the preferred supplier using the competitive bid committee system
- Any **other deviation will be allowed in exceptional cases subject to prior written approval** from the relevant treasury.

Variations/Expansions in Prescripts & Statutes

The NT Instruction 3 of 2016/17 titled Preventing and Combating Abuse in the Supply Chain Management System provides for the following regarding variations and expansions:

- The Accounting Officer/Authority must ensure that contracts are **not varied by more than 20% or R20 million** (including VAT) **for construction related goods, works and or services** and **15% or R15 million (including VAT) for all other goods and or services** of the original contract value.
- Any deviation in excess of the prescribed thresholds will only be allowed in exceptional cases **subject to PRIOR written approval** from the relevant treasury.

Governance of Deviations & Variations/Expansions within SARS



SARS ensures that all deviations and variations/expansions are approved via an internal DoA process (after NT approval) whenever they arise.

Variations & Deviations – Totals continue to decline at the back of initiatives taken since 2014.

	Total Deviations	Total Expansions/ Variations	Grand Total
2015/16	R 2 271 673 057.00	R 373 208 226.59	R 2 644 881 284.59
2016/17	R 2 124 175 569.00	R 59 213 437.00	R 2 183 389 006.00
2017/18	R 1 048 814 193.91	R 106 918 345.63	R 1 155 732 539.54

- The **combination of variations/expansions and deviations** has been decreasing over the last **three financial years**.
- The decrease Year-on-Year from **FY16 to FY17** was recorded at **17.5%** and a further **47.1%** from **FY17 to FY18**.
- The totals are inclusive of **both reportable and non-reportable deviations as well as expansions/variatio**ns.
- The declines have been as a result of Management's active oversight.

Variations & Deviations – As per NT Database i.e. OCPO website

	Sum Deviations & Expansions	Properties	% Properties
Quarter 1	85 399 163.92	54 289 168.52	64%
Quarter 2	489 539 295.86	327 268 446.02	67%
Quarter 3	766 997 079.34	744 504 204.80	97%
Quarter 4	178 870 623.23	58 229 615.50	33%
	1 520 806 162.35	1 184 291 434.84	78%

- Key driver of **SARS Deviations and Variations over the Financial Year 2017/18** has in the main been the renewal of property leases for the **SARS Branch Offices as well as the Ports of Entry such as Airports and Seaports, etc.**
- SARS has in the **past established a panel of property providers** however this proved to be very difficult to operationalise due to the fact that whenever requirements for space arose the participants in the panel were not able to provide suitable properties.
- Whenever SARS engages in property transactions costs are **benchmarked through amongst others the Rode's Report.**

SOUTH AFRICA



Last Revised on 05 June 2018

LEGEND

- Customs Office
- Border Post / Port of Entry / P.O.P
- Branch Offices
- Processing / Contact Centres
- Enforcement
- HR Development Centres
- LBC
- ⊕ Customs Airfreight

GAUTENG



Portfolio Usage Breakdown

Region	Corporate Space	BO (Zoned: Public Space)	Warehouse	Filing / Paper Storage Space	Customs Operations	Contact Centres	Border Post	OTO & Davies Tax Commission	Total Space M ²
Head Office	50 169	1 874	-	1 237	-	-	-	-	55 744
Gauteng	88 049	26 158	23 007	33 176	5 649	6 296	-	2 503	180 614
KwaZulu Natal	33 631	11 798	18 289	4 308	17 584	2 802	285	-	89 719
Western Cape	35 850	8 681	10 800	2 858	6 550	2 862	-	-	68 423
Limpopo	7 485	2 790	6 790	2 234	17 510	-	1 800	-	38 643
Eastern Cape	12 486	4 771	3 060	12 295	1 639	-	-	-	34 616
Free State	15 224	3 635	390	60	1 350	-	356	-	21 045
Mpumalanga	6 637	3 812	1 398	406	1 930	-	2 793	-	17 063
North West	4 669	2 941	-	288	359	-	921	-	9 210
Northern Cape	2 498	1 456	765	243	420	-	202	-	5 667
Overall Split	49%	13%	12%	11%	10%	2%	1%	0%	

SARS CRE approach is multi dimensional

- SARS occupies about 520,000 m² of which 9% is owned, 28% is leased through NDPW, 14% leased through SOCs and 49% is sourced through private leases. NDPW is always given the first preference when needs arise.
- SARS ExCo has approved a CRE Strategy the seeks to create a shift from leasing to owning within the confines of affordability . The first targeted area is the consolidation of SARS Corporate Offices from 5 to 2 buildings.
- The SARS Branch network informed by thorough volumetric studies in taxpayer concentration and accessibility including SARS building standards.
- Changing the location of branch locations requires careful consideration in line with the studies cited above which are continuously conducted by the SARS Strategy Unit.
- Experience has indicated that the branch location switching costs can vary between R30 – R40m depending on the branch size.

SARS CRE approach is multi dimensional

Region	Total Space m ² as at 30 April 2018						Total Annual Rental Cost as at 30 April 2018				
	Private Leases	SOE	DPW	SARS Owned	Total	% of Total Portfolio	Private Leases	SOE	DPW	Total	% of Total Portfolio
EC	19 608	71	14 937	-	34 616	7%	30 524 372	0	2 988 637	33 513 009	6%
FS	11 400	-	9 645	-	21 045	4%	11 429 635	0	1 994 054	13 423 690	2%
GP	51 942	47 115	53 860	27 697	180 614	35%	78 923 968	105 048 810	14 129 694	198 102 472	35%
HO	36 253	-	-	19 491	55 744	11%	99 591 592	0	0	99 591 592	18%
KZ	59 499	18 894	11 326	-	89 719	17%	76 852 391	2 115 412	2 509 030	81 476 833	15%
LP	1 794	-	36 849	-	38 643	7%	2 413 797	0	5 508 430	7 922 227	1%
MP	8 303	-	8 760	-	17 063	3%	15 372 618	0	5 030 160	20 402 778	4%
NC	4 280	420	967	-	5 667	1%	6 952 249	198 406	407 881	7 558 537	1%
NW	7 990	214	1 006	-	9 210	2%	12 255 259	164 406	314 279	12 733 945	2%
WC	55 287	6 275	6 861	-	68 423	13%	79 545 954	3 992 138	1 517 767	85 055 859	15%
Grand Tot	256 356	72 989	144 211	47 188	520 744	100%	413 861 836	111 519 172	34 399 933	559 780 942	100%
Analysis	49%	14%	28%	9%	100%		74%	20%	6%	100%	
Potential to reduce the cost to revenue ratio (to below the benchmark 1%)											

Conclusion

- SARS Deviations and Variations/Expansions have been **declining over the past** three years.
- In **September 2014 to March 2015** a decision was taken to have the **Commissioner approve all deviations and expansions**, this was an attempt to put a halt on deviations and expansions.
- SARS revised all **DoA away from line management toward Supply Chain Management** for a specific class of deviations and expansions.
- In 2017, SARS created **visibility for all deviations and expansions/variations by ensuring a quarterly report to the Audit and Risk Committee** through which all deviations as well as expansions are accounted for including trends on these transaction types.
- In 2018, SARS revised the DoA to ensure that all Deviations and Variations/Expansions regardless of the value are **adjudicated by the National Bid Adjudication Committees**.

General Recommendations

The deviations and expansions/variatioins are a creation of statute as well as guidelines from the National Treasury regulatory framework. The abuse of this framework should attract shifts in approach as follows:

- Review the legislative framework that makes provisions for the deviations and expansions/variatioins.
- Consider scrapping 16A6.4 as this is the sole enabler of deviations for accounting officers/authorities.
- Consider repealing Instruction Note 3 of 2016/17 in particular paragraph 9 which deals with variations and expansions.
- In instances where deviations as well as expansions/variatioins are unavoidable – NT OCPO should independently source such requirements to ensure objectivity and provide assurance of compliance in the same manner that Transversal Contracts are set up by OCPO.

Thank you
Re a leboha
Re a leboga
Ndza Khensa
Dankie
Ndi a livhuwa
Ngiyabonga
Enkosi
Ngiyathokoza