

RealTime Transcriptions

TRANSCRIPTION OF THE

COMMISSION OF INQUIRY

SOUTH AFRICAN REVENUE SERVICE

BEFORE COMMISSIONER

THE HONOURABLE MR JUSTICE NUGENT (RETIRED)

ASSISTED BY

PROF M KATZ
MR V KAHLA
MS M MASILO

HELD ON

DAY 6

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1 [PROCEEDINGS ON 21 AUGUST 2018]
 2 [09:09] MS STEINBERG: Judge, the terms of
 3 reference that we're dealing with this week are 1.11 to
 4 1.14 and I'll just read them out. "Whether the post 2014
 5 large business centre function review letter inefficiencies
 6 and ineffectiveness with specific reference to enforcement
 7 of compliance with legislation giving effect to the
 8 international efforts of curbing base erosion and profit
 9 shifting; whether the change in the operating model of SARS
 10 post 2014 contributed to inefficiencies and ineffectiveness
 11 with particular reference to the revenue shortfall in
 12 2016/17 and 2017/18; whether having regard to any firm of
 13 consultants advising on the new operating model an
 14 obligation existed on the consultants to demonstrate
 15 improvement in efficiencies or cost saving or revenue
 16 collection or any other similar cost benefit obligation as
 17 may be set out in the terms of reference and/or contractual
 18 obligations and if so whether this was proven." And
 19 lastly, "Whether the current governance and operating
 20 models of SARS is the most effective and efficient model
 21 and if not make recommendations as to the most suitable
 22 governance and operational models for SARS in the future."
 23 Our first witness is Dr Carolissen.
 24 COMMISSIONER: Morning Doc.
 25 DR CAROLISSEN: Good morning Judge.

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1 COMMISSIONER: Thank you very much for
 2 coming to assist us. We appreciate it.
 3 DR CAROLISSEN: It's a pleasure.
 4 COMMISSIONER: Can we just have your
 5 names, please?
 6 DR CAROLISSEN: Yes, I'm Randall
 7 Carolissen. I'm the Group Executive for research,
 8 responsible for research in SARS. The official title is
 9 Group Executive for TCA.
 10 COMMISSIONER: Before you go further will
 11 you affirm that the evidence you give will be the truth,
 12 the whole truth and nothing but the truth? If so will you
 13 say I do?
 14 RANDALL CAROLISSEN: I do.
 15 EVIDENCE BY DR CAROLISSEN
 16 MS STEINBERG: Dr Carolissen, we've
 17 really asked you to kick off this round of hearings by
 18 giving us an overview of the new operating model and the
 19 impact that it's had on SARS since its introduction, I
 20 suppose in late 2015 or so. Perhaps you can kick off by
 21 just giving us a summary or a context for the submissions
 22 that will follow.
 23 DR CAROLISSEN: Thank you Advocate. My
 24 presentation will be in two forms. I'll give a short
 25 overview of the presentation. It's rather long and I

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1 thought it fit just to put the context forward. And then
 2 I'll be guided by a few sets of slides. I kept it
 3 minimalistic but just to guide me and the audience to
 4 digitally illustrate some of the concepts I want to bring
 5 across. So thank you commission and thank you Judge for
 6 this opportunity. The mandate of SARS to collect all
 7 revenue due to the fiscus, SARS is the primary source of
 8 revenue to fund government's spending commitments,
 9 collecting about 90% of all government revenue. Any rouse
 10 or incapability or impediment to fulfil this mandate will
 11 have disastrous consequences for our nation. We will not
 12 be able to support our poor and vulnerable, pay our debts,
 13 educate our youth and defend our country's interests. This
 14 institution which is SARS must be protected and developed
 15 to remain the chief custodian of our fiscal sovereignty and
 16 capacitated to meet increasing challenges from
 17 sophisticated financial systems spanning the globe. SARS
 18 when first established in its current form in 1997 had been
 19 through various cycles of renewal on its journey from being
 20 a state bureaucracy to a fully-fledged tax administration
 21 service aligned with international best practice. Prior to
 22 2015 SARS has subjected itself to a number of international
 23 reviews and the consensus that generally emerged was that
 24 it was that of a world class institution constantly seeking
 25 to innovate and conform to international best practice.

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1 This status was confirmed by inter alia the
 2 execution of its mandate with revenue growth outstripping
 3 the economy by a margin as large as 20%. During its
 4 evolution to become a world class tax administration
 5 intense long-held paradigms of tax payers, tax
 6 administrators and society at large had to be shifted. The
 7 strategic journey of SARS is well documented in numerous
 8 annual and diagnostic reports and Exco submissions. The
 9 strategy of SARS is widely known and shared and deals were
 10 canvassed at national management fora and in submissions to
 11 the Parliament and in the Ministry of Finance. Any
 12 contemplation of change in the way SARS does business must
 13 therefore be informed by a careful analysis of the
 14 strategic journey of SARS, comprehensive impact analysis of
 15 the status quo and a clear understanding of the policy and
 16 other landscape dynamics. All of these must be considered.
 17 Any departure from these principles will invariably result
 18 in a calamity. The review of the operating model that
 19 culminated in the one that is now in force coincided with a
 20 period of extreme upheaval in SARS. SARS staffers would be
 21 telling you that the period commencing late 2014 was
 22 probably the most traumatic in their professional careers.
 23 Once trusting relationships became defiant by paranoia and
 24 distrust. Engagement with external stakeholders became
 25 strained and taxpayers began to show signs of withdrawal as

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1 voluntary compliance continued to slip. It was within this
 2 turmoil that the consultations and reviews were carried out
 3 by the Bain Consulting Group. The timing of the review is
 4 probably best reflected by a quote from Steve Jobs. "Never
 5 cut a tree down in winter time. Never make your most
 6 important decisions when you are in your worst mood. Wait,
 7 be patient, the storm will pass. The spring will come."
 8 In mid-2000 SARS embarked on a strategic journey
 9 best typified by the I-SARS model. This model essentially
 10 moved routine and labour intensive practices such as manual
 11 capturing of millions of taxpayer returns to processing in
 12 a factory-like environment. The human resources liberated
 13 by the use of smart technology could then be upskilled and
 14 directed towards an increased specialised functions that
 15 define the increase in complexity of tax administration.
 16 In the process segmentation of the tax base was carried out
 17 to ensure that the correct treatment is applied to the
 18 appropriate level of specialisation and complexity. SARS'
 19 innovative employment of technology shrunk turnaround times
 20 for taxpayers from months to minutes and revenue growth
 21 outpaced the economy in this period.
 22 Chief amongst the design principles adopted by
 23 Bain was to address the concentration of power in the
 24 office of the Chief Operating Officer in the then pre-2015
 25 organisational structure of SARS. The large plan of the

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1 office of the COO was not something new. As SARS
 2 previously had similar structural arrangements to assist
 3 the Commissioner with operational management and span of
 4 control. In the recent past SARS also had three Deputy
 5 Commissioner positions.
 6 The four options generated by Bain addressed the
 7 concentration of power, separating specialised function
 8 from the factory environment as I've described earlier, and
 9 by and large confirmed the conceptual model of the
 10 operating model developed by SARS as early in 2007 and
 11 implemented in 2010. To repeat the four options mirrors
 12 exactly, mirrors the operating model that SARS had already
 13 developed in 2007 and implemented in 2010. The final model
 14 adopted by SARS literally eviscerated the segmentation
 15 model and defined the design principle of over-
 16 concentration of power. The most important segment that
 17 suffered fragmentation was the large business centre. The
 18 large business centre is the key revenue generating segment
 19 accounting for about one third of SARS' revenue. The LBC
 20 is also the key instrument to address offshore elicit flow
 21 of funds, base erosion and profit shifting and trade
 22 misplacing. The large business centre spearheaded the many
 23 leadership and gains SARS engineered at the United Nations,
 24 the G20 and the OECD. Through these fora SARS was able to
 25 influence from a developing world perspective the

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1 formulation of international information exchange protocol.
 2 These protocols emanated in some of the programmes in SARS
 3 that proved to be very successful. The special voluntary
 4 disclosure programme which dealt with tracking of offshore
 5 wealth held based South Africans, for instance the Panama
 6 papers. Post implementation of the 2016 operating model
 7 the LBC was fragmented into legal BAIT business and
 8 individual taxes, stakeholder management and enforcement.
 9 In the finally adopted model which was a big
 10 departure from the options that were generated by Bain,
 11 BAIT then combined the personal and corporate tax
 12 structures with the factory environment yielding a division
 13 of about 4 500 staff responsible for about 80% of the
 14 revenue. It should be noted that Bain made the submission
 15 that the departure from the options generated resulted in
 16 BAIT only having a staff complement of 1300 which is
 17 erroneous. It didn't count the processing environment.
 18 Two years into the new operating model on many accounts it
 19 has become clear that SARS has regressed and that its once
 20 enviable reputation is badly tarnished. Tax buoyancy is a
 21 statistical concept to measure the performance of a tax
 22 administration and it's in essence the ratio of revenue
 23 growth to economic growth. Tax buoyancy retreated from an
 24 average of 1.2 prior to 2016 to 1. Taxpayer compliance
 25 continued to slip with a number of outstanding returns

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1 growing to about 57 million. The debt book grew by 50%
 2 since 2015 from about 85 billion to about 135 billion. The
 3 credit book moved from 40 billion in April 2013 to 55
 4 billion at the end of 2016 spiking to over 70 billion in
 5 April 2015.
 6 The contribution of the LBC to the total revenue
 7 slip from 34.8% in 2015 to 32.2% in 2017. My presentation
 8 here hopefully will show that contrary to the motivation
 9 forwarded for revenue of the SARS operating model in 2014
 10 SARS enjoyed status and recognition as a world class
 11 institution and a premier choice of employment. For us to
 12 move forward we have to carefully analyse how this erosion
 13 of excellence and destruction of value came about and
 14 strengthen the institution to prevent this from ever
 15 occurring again.
 16 COMMISSIONER: Just before you go on Ms
 17 Steinberg, Dr, apropos one little thing you said, are you
 18 aware that there is a, this place reeks of fear amongst the
 19 employment, many of the employees?
 20 DR CAROLISSEN: Like I said, Judge, post
 21 2014, beginning 2015 trust in relationships got eroded.
 22 People began to look over their shoulder and became very
 23 secretive. So yes, people are fearful.
 24 COMMISSIONER: And there's hardly a,
 25 we've tried to speak to many people, we have spoken to many

<p style="text-align: right;">Page 717</p> <p>1 people and almost without exception they're afraid of 2 approaching us. They're afraid even of being seen on the 3 floor that we're sitting at. Are you aware of that? 4 DR CAROLISSEN: I can understand that, 5 yes. 6 COMMISSIONER: And there is a lot of 7 valuable information that most of them have but they refuse 8 to disclose it to us because they are fearful that there 9 will be reprisals. Are you aware of that? 10 DR CAROLISSEN: I am aware of that and I 11 could discuss it with my colleagues, yes. 12 COMMISSIONER: And I think you sit on, I 13 don't think you're a member of Exco but you're at least an 14 invitee on Exco, is that right? 15 DR CAROLISSEN: That's correct, Judge. 16 COMMISSIONER: Is the Exco aware of the 17 fear that there is here? 18 DR CAROLISSEN: Yes. We have discussed 19 this many times in Exco. 20 COMMISSIONER: Has anything been done 21 about it? 22 DR CAROLISSEN: Assurances have been 23 given that we must co-operate with the commission and that 24 there will be no reprisals. 25 COMMISSIONER: Well, have you told the</p>	<p style="text-align: right;">Page 719</p> <p>1 the radar. And I wonder if Exco is aware of that. 2 DR CAROLISSEN: At the risk of sounding 3 dramatic I think what we see is typical post-traumatic 4 effects of a severely traumatic event that we went, well 5 that SARS had gone through, that even those people that 6 were appointed subsequently in the new structure even we 7 felt like we suffered from survivor syndrome and that the 8 people that we used to work with that were not appointed, 9 the relationships were strained. There's no doubt about 10 it. So this is typical of an organisation that has gone 11 through severe trauma, the symptoms that you are 12 describing. 13 MS STEINBERG: Well in my opinion it's 14 not dramatic or an exaggeration. I've used the phrase 15 myself. There is post-traumatic stress syndrome in this 16 organisation. But perhaps you can go on with your 17 presentation. 18 DR CAROLISSEN: Thank you. I don't know 19 what the arrangement is. I've got a few slides that I 20 would like to keep as a reference. 21 MS STEINBERG: Go ahead. 22 DR CAROLISSEN: So I don't know whether 23 the commission would – 24 COMMISSIONER: How many do you think 25 you're going to use?</p>
<p style="text-align: right;">Page 718</p> <p>1 staff that? I'm not being critical of you, I just want to 2 know because we get people who have point blank refused to 3 talk to us because they fear that we will ask them to come 4 and say something in public or we'll ask them to make an 5 affidavit and their identities will become known. Point 6 blank they say I will not do it. I could compel them, of 7 course, but well, they've got to - try and get evidence 8 like that who are fearful. 9 DR CAROLISSEN: I can understand that 10 position. Some people got terribly hurt post 2015 and 11 there are some people that don't, can't find work that are 12 sitting out there, their lives have been destroyed. So 13 it's a real fear and I can empathise with that. 14 COMMISSIONER: So I'm not getting false 15 information from them when they say they feel this. You 16 would accept that these are genuine fears amongst them? 17 DR CAROLISSEN: Absolutely. 18 MS STEINBERG: I would only add, Dr 19 Carolissen, that the fear is not only in relation to 20 bringing evidence to the commission but it's in relation to 21 doing their work within SARS that what we hear repeatedly 22 is where there used to be an environment where one could 23 take risks because one's seniors would be in support. 24 There's now an atmosphere where everybody keeps their heads 25 down and does as little as possible in order to keep under</p>	<p style="text-align: right;">Page 720</p> <p>1 DR CAROLISSEN: It's throughout the 2 presentation so it's about eight or ten slides, but it's 3 just to guide myself. 4 COMMISSIONER: Yes, no I understand that. 5 I just wonder whether it's - down there. 6 MS STEINBERG: Judge, I think there's a 7 screen now. 8 COMMISSIONER: Oh there's a screen here. 9 Oh okay. Mr Katz, are you tall enough to? 10 PROF KATZ I - 11 COMMISSIONER: Thank you. 12 DR CAROLISSEN: Is there somebody that's 13 going to drive the computer? 14 Thank you Advocate, and I don't mind being 15 interrupted because it will also stir my conversation with 16 you or I might slip over things which you might think I 17 should emphasise. I thought this slide would best describe 18 the journey of SARS since about 2004 because this slide can 19 be used to tell quite a number of stories about the 20 performance of SARS. So if you were to take the period 21 from 2004 to just – 22 MS STEINBERG: Sorry Dr Carolissen. The 23 top is cut off and I wonder if we can – 24 DR CAROLISSEN: Ja, I asked them to fix 25 it.</p>

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1 MS STEINBERG: Okay. Thank you.
 2 DR CAROLISSEN: Okay, that's a lot
 3 better. So I have identified three periods on that
 4 particular graph. This graph shows the revenue growth
 5 since 2004 to about 2017/18 and the red line on top shows
 6 the tax to GDP ratio which is also statistical concept
 7 which is used by, well to assess the efficiency of tax
 8 administrations. So for the period 2004 to just prior to
 9 the financial crisis which is marked by the red bar SARS
 10 grew quite buoyantly. It grew at a revenue growth. The
 11 revenue growth registered a CAGR, compound average growth
 12 rate of about 15.2%. Now in that particular period we had
 13 a commodity boom and we also had significant reform in the
 14 financial sector. That performance assisted SARS, assisted
 15 the government to begin to reduce its sovereign debt and
 16 therefore from about 1996 when the sovereign debt was
 17 hovering at about 46% to the period just prior to the
 18 financial crisis the sovereign debt came down by 22%. And
 19 this shows the impact of robust revenue collections on the
 20 overall fiscal framework. At the particular point also the
 21 buoyancy was quite, the tax collections were quite buoyant.
 22 So when we entered the financial crisis, SARS, the
 23 government had the necessary fiscal space to negotiate the
 24 worst effects of the financial crisis.
 25 [09:29] The revenue growth compacted by 4.2%. That was

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1 quite good if compared with our international peers. In
 2 the US the growth contraction was of the order of 16%. So
 3 most other countries had much more severe contractions than
 4 SARS and this demonstrated resilience of SARS of having to
 5 cope with a contraction in the economy which was as bad as
 6 it had been represented by the global financial crisis.
 7 Post the financial crisis the revenue recovered much more
 8 quicker and more robust than most of our peer
 9 administrations and although at a lower rate of 10.2%
 10 compound average growth rate up till the period of 2015/16
 11 and in that particular period government also then began to
 12 use the fiscal space that they had to begin to counter
 13 cyclical stance on assisting the economy. So in other
 14 words it started to borrow to cover for deficits to make
 15 sure that we don't lose as many jobs as we probably would
 16 have to begin to make sure that government compensate for
 17 lower private investment and by stimulating government
 18 programmes. In the period 2017, 2016 to 2017 the growth
 19 receded to 6.3%. Now of course and this is quite important
 20 that we note this, revenue growth is a function of a number
 21 of issues. First of all and primary is of course the
 22 economy. Secondly it is policy intervention. In other
 23 words if government push up the rates you can expect to
 24 collect more taxes but there is a turning point after which
 25 if you pay too much tax people don't have an incentive to

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1 work anymore and that's the latter curve is well-known and
 2 well described and then the third one is the compliance of
 3 the tax payers and the fourth one is the effectiveness of
 4 the tax administration. So if we were to look at first of
 5 all the impact of the economy. Let me just, ja first of
 6 all the impact of the economy. So the impact of the
 7 economy can be described by a buoyancy relationship. In
 8 other words how buoyant are your taxes with regards to the
 9 growth in the economy. Now if you out, if the ratio is
 10 greater than one then it means your tax revenue is growing
 11 faster than the economy and that's a desirable state that
 12 you want to be in. You want to outstrip the economy
 13 because in that way you can generate surpluses and
 14 government will have the latitude to spend some money.
 15 So the period 2009/10 to 2015/16 the buoyancy
 16 rate was 1.2. So we grew far, 20% faster than what the GDP
 17 was growing. In the period 2017 to 2018 that buoyancy
 18 receded to 1% or retreated to 1, it's not a percent, ratio
 19 of 1. So in other words we were just tracking the economy.
 20 So that deals with how the taxes perform against the
 21 economy. So it's not just a simple relationship as I
 22 probably make it out to be because when we do the
 23 forecasting we literally go into the underlying drivers of
 24 every tax type. So we would go into the underlying driver
 25 of domestic VAT for instance which would be consumption and

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1 we would see how VAT relates with consumption and when you
 2 start to add that up you'll then have the aggregate of the
 3 impact of the economy. So that in a very high level on, at
 4 a very high level deals with the impact of the economy on
 5 the revenue pattern that we see.
 6 We have written an opinion piece, I think it was
 7 published in the Business Day about how these different
 8 taxes react to the underlying drivers. If you come to the
 9 policy perspective, if you take the period 2004 to 2008/09
 10 the growth was so good that in addition to offering
 11 government the potential reduce its sovereign debt it also
 12 offered the opportunity for government to lower tax rates
 13 so even the tax payers benefited from this robust growth.
 14 So what happened in the period when the, over the
 15 last two years when the tax growth receded to the extent
 16 that it did government's debt was on an upward trajectory
 17 and if we had continued on that trajectory consolidation,
 18 in other words when you start to flatten your debt and
 19 start to contain it would have been achieved above 60%.
 20 Now if you have such high debt and a bad credit rating then
 21 your debt servicing costs is going through the roof. I
 22 mean other countries like Japan can maintain debt ratios of
 23 200% to GDP and still maintain a healthy fiscal framework
 24 because their credit rating is favourable. So going over
 25 60% was not desirable and therefore government had to

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1 introduce increases in tax rates as we've seen over the
 2 past two years and particularly in 2018, February budget
 3 R36 billion of tax measures in aggregate were introduced.
 4 Chief amongst which was the VAT rate that was increased and
 5 also limited tax relief for high income earners.
 6 So the impact of, what I'm trying to illustrate
 7 with the slide is that the impact of revenue collections is
 8 not just a measure of how well SARS is doing but it's a
 9 measure of the latitude, the fiscal space, the compliance
 10 environment that you then start to effect positively or
 11 negatively. So as I said earlier also the other issue that
 12 we now need to talk about is the compliance of tax payers.
 13 So the willingness of tax payers to pay their taxes and to
 14 perform their administration duties. If that is slipping
 15 then despite your best efforts you will not realise the
 16 type of taxes that you would like to realise and that is
 17 closely coupled with administration efficiency of the
 18 organisation. If you are services poor, if your
 19 interaction with the tax payers is suspect, if they don't
 20 trust the tax administration all those factors in a complex
 21 manner then feeds into these patterns and when you do this
 22 analysis and this forecasting you have to take all of these
 23 issues into account to begin to put forward a credible
 24 number. I just briefly deal with the forecasting process.
 25 So within SARS, of course we run statistical models where

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1 we use macroeconomic indicators and then we come to a tax
 2 position and we do that in February in the year prior to
 3 the beginning of the financial year.
 4 PROF KATZ: Sorry Doctor, on this, one
 5 very important issue that arises is the link between the
 6 so-called bad economy and a reduced tax collection. A lot
 7 of what you've said indicates that it's not a direct
 8 correlation. At least that's the case would you agree?
 9 DR CAROLISSEN: Absolutely, yes.
 10 PROF KATZ: So whatever the state of the
 11 economy the tax collection process and administration can
 12 make a big impact?
 13 DR CAROLISSEN: Absolutely. It has to be
 14 known that many tax administrations will tell you also that
 15 their relationship with the tax payer is absolutely
 16 paramount and the view of the taxpayer as to well their
 17 money is spent is also very, very important.
 18 PROF KATZ: Then I would just make one
 19 other observation to get, in the same way as a good economy
 20 can be good for tax, but bad tax administration can be bad
 21 for the economy.
 22 DR CAROLISSEN: That's right.
 23 PROF KATZ: So that if you're not
 24 collecting properly and you have to hike your VAT you can
 25 spoil the economy?

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1 DR CAROLISSEN: Absolutely. It's a
 2 complex interplay with lots of feedback loops, Advocate so
 3 that you know the way SARS does its business does have an
 4 impact on the, on investor confidence, on and people
 5 employing people, people buying and so it's a very complex
 6 relationship which is not easy to model but we have some
 7 statistical models that take those micro events into
 8 account. So all of these factors that I've described, I'll
 9 be very brief now and this is taken into account when we do
 10 revenue forecasting. The first forecast is indeed done
 11 three years prior to the relevant year because we take a
 12 medium term outlook on revenue. So by way of example in
 13 2018 we are already forecasting the potential outcomes
 14 based on the GDP outlook and a whole host of macroeconomic
 15 outlook indicators for the next three years and then in the
 16 year prior to the commencement of the financial year we
 17 then do what is called the printed estimate which is based
 18 not eh latest GDP.
 19 As the year then progresses into October MTVBS we
 20 then take a look at whether our economic indicators do
 21 indeed pan out in the manner that we thought it would and
 22 then make the necessary adjustment and then we have a final
 23 opportunity just prior to the close of the financial year
 24 and that, the latter one I referred is the MTVBS adjustment
 25 and then just prior to the close of the financial year we

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1 then have the final which is called the revised estimate.
 2 So it's quite common that the outlook changes throughout
 3 the year and in fact when we had the financial crisis in
 4 2008/09/10 we had a massive downward adjustment because of
 5 the collapse of the economy. So it would be foolhardy to
 6 persist with that outlook that has changed and it works
 7 both ways. So some years it's upwardly adjusted and other
 8 years it's downwardly adjusted.
 9 So I thought that is, so I hope that this slide
 10 provided the necessary context of the, shall we call it the
 11 revenue growth environment. So this is the, this is an
 12 important slide because this to a large extent informs the
 13 choice of strategy and operating environment that you would
 14 apply yourself. So SARS has got this compliance model
 15 which is, which is based on three levers. First of all the
 16 view is that if people know their tax obligations, they're
 17 educated about it, they are more likely to pay their taxes
 18 and especially in the post democratic environment this was
 19 important because pre-1994 people used avoidance of tax as
 20 a means of protesting and so there was a lot of investment
 21 in education and a continued investment in education as to
 22 why people should do the right thing and pay their taxes.
 23 Then of course it was found also that if you
 24 provide good service interfaces, if people find it easy to
 25 pay their taxes they are more likely to pay their taxes and

1 those two levers are normally used to encourage voluntary
 2 compliance. You've got people to do the right thing on
 3 their own without you having to force them and then of
 4 course the last leg is if things don't work out and you
 5 don't want to pay your taxes then you must be locked up and
 6 something must, there must be consequences and the pulling
 7 and the balancing of these levers are very important if you
 8 understand the compliance environment. So if you see a
 9 severe slippages in compliance you would tend to pull the
 10 enforcement lever a little bit more than the education
 11 lever and therefore a careful assessment of the environment
 12 and the dynamics of the business cycle that you find
 13 yourself in then normally would guide you as to the balance
 14 and there are measures to, there are ways to measure the
 15 compliance environment. So this is what the slide is
 16 telling us and -
 17 MR KAHLA: Just clarity for me. If I
 18 look into that segment on education it seems to me that
 19 it's reflecting really just to education of the tax payer
 20 but of course if you just recall the statement you made out
 21 before about people who had stayed away from revenue taxes
 22 because of they consider it inappropriate to render them to
 23 an illegitimate regime. To what extent is the value
 24 equally in education to the users of the tax revenues?
 25 Also to again avoid a situation where you find the likes of

1 organisations undoing tax abuse, themselves communicating
 2 that there is a problem around the other angle. I just
 3 want to understand the education. Is it just looked at
 4 purely in relation to taxpayers, is there education equally
 5 important for the users of the taxes collected?
 6 DR CAROLISSEN: You are actually, it's in
 7 the, a very important point. It's, perhaps I did say
 8 taxpayers but overall education for the entire, shall we
 9 call it tax environment, whether that be the journalist,
 10 the taxpayers, opinion makers, policy makers, even
 11 government and in fact in my division we have gone through
 12 that lengths where we take our tax, shall we call our
 13 education, how we forecast we take it to parliament, we
 14 explain it to parliamentarians and we even had a session
 15 with the journalists to show them how these things are put
 16 together. So it's not just the taxpayer, I should correct
 17 therefore. It's the wider community. The entire society
 18 at large, tax society at large.
 19 MR KAHLA: Okay.
 20 DR CAROLISSEN: So this is, this slide in
 21 essence encapsulates for me the strategic journey of SARS.
 22 When I arrived at SARS in 2006 I was stunned by the amount
 23 of paper that people had to complete, paperwork people had
 24 to complete to submit their taxes and the amount of
 25 capturing that had to be done by people that typed

1 incredibly fast to capture that information into the system
 2 and that was laborious, time consuming and prone to error
 3 because despite the best efforts if you manually capture
 4 you are always going to have problems being accurate and so
 5 SARS embarked on a journey to begin to move routine and
 6 standardised processes into a production environment using
 7 technology and so now what we have today is a supposed to
 8 having to wait for three months or six months for your tax
 9 return to be finalised you literally get it within one
 10 second and then one second later your, if your return was
 11 not kicked out for audit you would hear a beep form your
 12 bank that your money's paid over and that is in essence
 13 represents the strides that SARS had made and which SARS
 14 was being recognised for worldwide as being an innovative
 15 leading innovator for tax administration.
 16 So those manual processes were intended to move
 17 routine and processes that lend itself to be standardised
 18 into a production environment where info gets captured, oh
 19 sorry even before that, where information gets pre-
 20 populated on your tax form from various third party
 21 sources. It then gets sent to you, you might just tick off
 22 and say I'm happy or add one or two items that you think
 23 may be omitted. Once you submit it goes straight into the
 24 risk engine, straight to the system with no human
 25 intervention and it gets processed and your return gets

1 returned to you. Now the intention of that was to take
 2 those resources that were freed up in that manner and to
 3 redeploy them in areas of specialisation. To begin to
 4 train those resources up to deal with very complex tax
 5 matters like BEBS, transfer pricing and also to move some
 6 of those resources into the service environment to improve
 7 service at the, in the call centres and at the branch front
 8 end offices. That was the whole intent to move people away
 9 from this laborious time consuming processes into this
 10 segments which I've described.
 11 And that also then began to shape the thinking
 12 around the segmentation model because the segmentation
 13 models says that different taxpayers require different
 14 treatment. So a taxpayer that just earn a normal salary
 15 and gets all his deductions made by his employer normally
 16 that tax payer would not have a complex affairs and that
 17 would be a non-complex tax payer which could be treated
 18 slightly different from somebody that has a trust, a
 19 directorship and all that sort of things. So this then
 20 began to typify this, what we call the I-SARS model. The
 21 strategic journey of SARS and this began to inform how we
 22 should organise ourselves then to be optimal and to harness
 23 all these benefits that technology had offered to us.
 24 COMMISSIONER: May I just ask this. I've
 25 heard that process described as the modernisation programme

<p style="text-align: right;">Page 733</p> <p>1 that was, is that's what you're talking about?</p> <p>2 DR CAROLISSEN: Ja.</p> <p>3 COMMISSIONER: Now of course a programme</p> <p>4 like that I would imagine is an ongoing thing, you don't</p> <p>5 get to the end ever.</p> <p>6 DR CAROLISSEN: Absolutely and therefore</p> <p>7 this is not just a once off renewal. Technology moves at a</p> <p>8 fast pace and also the taxpayers that we are servicing</p> <p>9 becoming, I mean they are also becoming, everyday they're</p> <p>10 becoming more and more sophisticated. So this requires</p> <p>11 ongoing renewal.</p> <p>12 COMMISSIONER: I've also been told, tell</p> <p>13 me if this is correct or not, that when the new</p> <p>14 Commissioner arrived that modernisation process was</p> <p>15 summarily stopped, is that correct?</p> <p>16 DR CAROLISSEN: That's correct because</p> <p>17 there was a some form of investigation launched on the</p> <p>18 modernisation. I don't have the details but it was stopped</p> <p>19 yes.</p> <p>20 MR KAHLA: By investigation is it, is</p> <p>21 that reference to the review on the new operating model or</p> <p>22 was that a separate investigation directed at the</p> <p>23 modernisation process?</p> <p>24 DR CAROLISSEN: I believe it's a separate</p> <p>25 one that looked at the modernisation process and the</p>	<p style="text-align: right;">Page 735</p> <p>1 required completion so I think the correct word is probably</p> <p>2 suspended.</p> <p>3 COMMISSIONER: And what happened, I mean</p> <p>4 is this, has it been resuscitated or not?</p> <p>5 DR CAROLISSEN: Aspects of that is being</p> <p>6 resuscitated because with our, for instance our filing</p> <p>7 season that we just started now certain modification to the</p> <p>8 system need to be done. So there's ongoing tweaking but</p> <p>9 certainly if you ask my opinion certainly not at the same</p> <p>10 level that it, intensity that had happened before. So</p> <p>11 there's tweaking to the system. But the system is under</p> <p>12 strain. I mean you don't have a, the system is ten years</p> <p>13 old. We're talking about 2008 and we're at 2018 and the</p> <p>14 technology environment that's a long time.</p> <p>15 MS STEINBERG: Dr Carolissen, would you</p> <p>16 agree that one of the benefits of the modernisation process</p> <p>17 is that it improved governance in the sense that there are</p> <p>18 various checks and balances that are necessarily built into</p> <p>19 the system which can't be overridden?</p> <p>20 [09:49] DR CAROLISSEN: Yes you're right, but I</p> <p>21 would add to that. I said, what I would say is that the</p> <p>22 modernisation print with the modernisation, the automation</p> <p>23 of systems –</p> <p>24 MS STEINBERG: Yes.</p> <p>25 DR CAROLISSEN: - had better quality</p>
<p style="text-align: right;">Page 734</p> <p>1 investment that was done in that.</p> <p>2 MS STEINBERG: If I may add to that.</p> <p>3 When Bain were employed to assist the commission in</p> <p>4 developing the new operating model the IT area of this</p> <p>5 organisation was explicitly left out of their mandate and</p> <p>6 that was tackled by another consulting company later called</p> <p>7 Gartner.</p> <p>8 DR CAROLISSEN: That's correct.</p> <p>9 PROF KATZ: Sorry if I could just follow</p> <p>10 from the Judge's question. When you answered the judge</p> <p>11 that was stopped, on whose decision, was it the Exco</p> <p>12 decision and was it communicated to the organisation why it</p> <p>13 was stopped and what was going to happen?</p> <p>14 DR CAROLISSEN: It was communicated to</p> <p>15 the organisation that it will be stopped but the reasons</p> <p>16 were not given and I don't know whether it was discussed at</p> <p>17 Exco because at that particular point I was not on Exco. I</p> <p>18 would assume that it was either an Exco or a commission</p> <p>19 decision.</p> <p>20 MR KAHLA: Was it totally stopped or was</p> <p>21 it suspended pending that, Gartner's review?</p> <p>22 DR CAROLISSEN: I think the word</p> <p>23 suspended is probably the better word to use. It wasn't</p> <p>24 stopped because there was always a recognition that you</p> <p>25 cannot stop this, there were ongoing programmes that were,</p>	<p style="text-align: right;">Page 736</p> <p>1 data. My reference to manual capture being error prone was</p> <p>2 not off the cuff, it actually had meaning because now that</p> <p>3 we have much better data and a much better data rich</p> <p>4 environment you can then begin to design much better risk</p> <p>5 identification strategies. And then also from my personal</p> <p>6 perspective you also have much better data for research</p> <p>7 purposes. So you could then use this to feed it back for</p> <p>8 operational improvement. So in addition to the benefit</p> <p>9 offered to the taxpayer the organisation itself was offered</p> <p>10 much more reliable and accurate and data rich environment</p> <p>11 to begin to improve its own operations.</p> <p>12 MS STEINBERG: Thank you.</p> <p>13 DR CAROLISSEN: And governance –</p> <p>14 MS STEINBERG: And governance yes.</p> <p>15 MS MASILO: Sorry, Dr Carolissen, so</p> <p>16 what's the impact of the suspension on the organisation as</p> <p>17 a whole?</p> <p>18 DR CAROLISSEN: Well look like I said you</p> <p>19 know the – basically if you want to look at it in broad</p> <p>20 terms, if you operate in this environment, this high tech</p> <p>21 environment you have to innovate continuously. So any</p> <p>22 stoppage puts you – every day you stop it puts you further</p> <p>23 and further behind your competitors, number one and your</p> <p>24 taxpayers because the world don't wait for SARS to catch up</p> <p>25 or for any organisation to catch up. And as we say the</p>

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1 major thrust of the modernisation is eight to ten years
 2 old, the major innovation happened then. And therefore you
 3 have to get back on track.
 4 The division that suffered the most from this
 5 stoppage was the customs division because they had just
 6 began their journey of modernisation and so when they were
 7 pulled dead into their tracks the impact was not good for
 8 them at all. And they are battling to get out of the
 9 starting blocks again. That I know for sure because we are
 10 assisting them with that. So you know you don't - if you
 11 fly and you suddenly cut the petrol supply to the engines
 12 you have to glide for a long time, but you can't glide
 13 forever. I hope that analogy is good.
 14 So the important part from the I-SARS that they
 15 need to focus their attention on is the numbering. You
 16 will see there are numbers 1, 2, 4, 5 and so on and those
 17 numbers are beginning to identify then the segments that
 18 SARS would then begin to develop in their segmentation
 19 strategy. So these would then be, the I-SARS model further
 20 identified the specialised segments on which the operating
 21 model would be premised that we began in 2008. And
 22 therefore you would see, for instance, number 1 is the tax
 23 practitioners. That's an important segment because the tax
 24 practitioners is an extension of SARS to assist us with our
 25 business to make sure that people comply.

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1 Segment 3 would be Complex Individuals and
 2 there's a clear description of what SARS meant by a complex
 3 individual. Standard individuals, employers as agents, as
 4 you know employers collect taxes on our behalf, they
 5 collect Pay as you Earn and so this segments were analysed,
 6 were research in the run up to the deployment of the
 7 operating model at that particular point. And you would
 8 also notice that there's micro to small, even the
 9 businesses were segmented, the large business, the medium
 10 business and micro, small businesses. So in addition and
 11 this is what a lot of people are not aware of, in addition
 12 to the large business centre there was also contemplation
 13 of medium business segments and small business segments.
 14 It's just that the large business segment, because of its
 15 prominence in collecting revenue, one third of SARS's
 16 revenue that probably most of the attention focus onto
 17 that. But as you go down into the business hierarchy to
 18 the lower level businesses they become a lot more, but they
 19 also remain significant. And in fact I can even pass this
 20 point now in case I forget it, in 2016 when the large
 21 business centre grew at 0%, in fact in real terms
 22 contracting, if you take out inflation, it was the small
 23 and medium business segment that accounted for the growth
 24 of, I think it was 7% that we grew. So the attention, you
 25 cannot neglect that part of the business because in some

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1 cases must come to the party when you have problems with
 2 the other segments. So you need to understand when you do
 3 revenue analysis and forecasting you need to understand
 4 things down to a segment basis as well as a sector basis.
 5 Some sectors perform differently than others. So the risk
 6 of complicating a complex slide already. So the point I
 7 want to drive home that with the I-SARS model this research
 8 was done and the clear identification of the business
 9 segments that need to be addressed were identified in 2008
 10 already.
 11 MS STEINBERG: Where do high net worth
 12 individuals sit in, which segment?
 13 DR CAROLISSEN: It would be under the
 14 complex segment, I'm going to talk a little bit more about
 15 the high net worth going forward. So this was the SARS
 16 conceptual operating model based on that research that I
 17 described and it was implemented in 2010. Now this
 18 conceptional operating model is complex in the sense that
 19 it draws on all of these, shall we call it design
 20 principles that normal tax administration use. And because
 21 you draw on all the best features of it, it becomes
 22 complex. So first of all you will identify that there is a
 23 shared channel platform that is the factory environment as
 24 I described earlier. That's where you put your
 25 standardised processes, it's run like a factory, it's

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1 optimised like a factory, you have quality management in
 2 there and a whole list of things. Then you also have,
 3 sorry it's on the factory environment and then the shared
 4 platforms would be the – just picks them up now for a
 5 minute. So the factory operations is clearly described and
 6 the front end is the front office which services the
 7 taxpayers.
 8 Then with regards to your different tax types,
 9 you will then begin to see that the segments are starting
 10 to be identified under the different tax types. The large
 11 business centre, the tax practise, the formal business, the
 12 informal businesses, you'll see customs in there and CBCU
 13 and then you will see the support functions grouped around
 14 it. So that was the conceptual model that gave rise to the
 15 model that was then implemented in 2010. And why this is
 16 important because I want to come back to this when we
 17 discuss the Bain options that were generated, because –
 18 okay let me not jump too far ahead. But clearly the I-SARS
 19 model and the identification of the different segments
 20 clearly found expression in this conceptual design.
 21 MR KAHLA: Who consulted on this
 22 conceptual design of 2007?
 23 DR CAROLISSEN: We had McKinsey that
 24 assisted, ja because I worked also at McKinsey on the
 25 revenue forecasting and that type of thing, so it was

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1 McKinsey that assisted and the culmination was this
 2 conceptual design. So I think the point I wanted to drive
 3 home, there was a clear understanding of the strategy that
 4 we had to embark on to remain world class or to stay at the
 5 front end of innovation. It was not that there was an
 6 absence of it, it's clear and this was well articulated in
 7 our management forum and across the organisation.
 8 MS STEINBERG: And just to be clear, by
 9 the end of 2014 you weren't finished that process, you were
 10 in the middle of it.
 11 DR CAROLISSEN: Like I said – and that's
 12 why I say no it's not a strategy, I say a strategic journey
 13 because these milestones were marked and as they were
 14 achieved they were ticked off and you know, so it was a
 15 journey that we embark on. And we knew that we can't do
 16 everything at once, we have to do certain things first, bed
 17 that down and continue. So for instance the important part
 18 was the LBC that had to bedded down and properly
 19 functioning before we move to the medium segment, medium
 20 business segment. So there was a rolling dynamic, it was
 21 not just a static that you'll say this is it and then we
 22 move to the –
 23 MS STEINBERG: Am I correct, am I correct
 24 in saying that the reason you couldn't just take the end
 25 point and implement it immediately is both because you have

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1 to develop systems, but also because people have to go on a
 2 journey and keep up with it?
 3 DR CAROLISSEN: Absolutely. So the
 4 systems is one part of the journey. And remember if you
 5 look at the I-SARS slide we had a lot of people that were
 6 caught up in standardised, routine work and therefore the
 7 opportunity for those people then to begin to upskill and
 8 move into higher specialisations also need to happen
 9 simultaneously. And I mean there are setbacks and so on,
 10 you have to work around that, but there was a continuous
 11 assessment and watching of the journey, it's not a
 12 snapshot.
 13 MS STEINBERG: And I would – sorry.
 14 COMMISSIONER: When you were talking
 15 about modernisation you got to the stage, I think, that you
 16 were talking about personal taxes, etcetera had been taken
 17 care of to a large degree although there's always
 18 development there. But what about VAT, have you done much
 19 on that?
 20 DR CAROLISSEN: That's an important
 21 question. So the staggering of modernisation was done on
 22 impact. So most of the routine work and shall we call it
 23 labour intensive work was in the personal environment
 24 because we have millions of taxpayers.
 25 COMMISSIONER: Ja.

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1 DR CAROLISSEN: And so that was also
 2 deliberate to first tackle the PAT environment then move to
 3 the VAT and then to the corporate. We haven't completely
 4 conquered the VAT environment yet, so we are automated, but
 5 not to – that the process has not been completed. The CIT
 6 environment still needs modernisation.
 7 COMMISSIONER: And you say that customs
 8 was going to be – was on the list as well, but you never
 9 really got there.
 10 DR CAROLISSEN: Well the Customs Act that
 11 was promulgated in 2014 will require us to automate and to
 12 become much more modern than what we are at the moment.
 13 COMMISSIONER: Were you intending to go
 14 there, apart from the 2014 Act?
 15 DR CAROLISSEN: Yes, yes it was always –
 16 perhaps that's the important point, the factory
 17 environment, the high processing environment was intended
 18 also to take care of large customs capturing of invoices
 19 and clearing documents and stuff like that. So the customs
 20 environment that lends itself to processing also to
 21 standardisation and high level processing would have been
 22 slipped into the processing environment, into the factory
 23 as well. So that was always the intent.
 24 COMMISSIONER: Have you gone there at
 25 all?

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1 DR CAROLISSEN: Not at the moment. No.
 2 COMMISSIONER: No.
 3 DR CAROLISSEN: Partially, but very
 4 minimally so.
 5 PROF KATZ: May I just ask, this whole
 6 process that's monitoring and that is that all self-
 7 contained within SARS? In other words does National
 8 Treasury, is there any reporting to Treasury about this, is
 9 it benchmarked with outside stakeholders OECD, is all of
 10 this throughout only a SARS determined issue?
 11 DR CAROLISSEN: Look we've had assistance
 12 from consultants and consulting agencies, we continuously
 13 benchmark ourselves against our peer agencies, I have been
 14 to Sweden myself to go see how they do it and their
 15 successes and the lessons learnt. So we are in contact
 16 with our peer agencies and the next section that I'm going
 17 to describe is to say actually how are we doing
 18 internationally because you know you can go into self-
 19 congratulatory mode very quickly. And therefore it's
 20 important that you keep yourself grounded by seeing are you
 21 on the right track or what are you doing. So the next
 22 section I'm going to show you –
 23 PROF KATZ: Sorry just – but that's the
 24 first part of it, but while all this is going on is there
 25 any reporting to National Treasury, do they say your

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1 statistics are good, you're doing well or you're not doing
 2 well, you're stopping things you shouldn't be? What's that
 3 relationship?
 4 DR CAROLISSEN: That relationship is
 5 governed by the normal relationship that all state agencies
 6 have with their para ministry. You'll have to develop an
 7 APP, you'll have to develop a performance plan, you have to
 8 report against that. You have to go to parliament to
 9 report against your progress, against your strategy, how
 10 you spend your budget. So all of those processes are in
 11 place yes as with any other agency.
 12 PROF KATZ: So when the modernisation
 13 program was stopped or suspended where does National
 14 Treasury or anyone, is there no oversight to question that?
 15 DR CAROLISSEN: I wasn't part of those
 16 discussions, but I would imagine yes, I imagine because
 17 National Treasury disburse our budget or they approve our
 18 budge and they would want to know how you're doing on your
 19 modernisation, what the progress are, how well are you
 20 spreading your money. So yes those conversations happen
 21 and we –
 22 COMMISSIONER: You say they happen, do
 23 you know they happen?
 24 DR CAROLISSEN: Yes they do happen
 25 because we are –

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1 COMMISSIONER: When did they happen?
 2 DR CAROLISSEN: At that particular point
 3 of the stopping I can't comment on that, but we do have
 4 monthly meetings with our Minister. I am also aware that
 5 the Commissioner has an additional set of meetings with the
 6 Ministry as well. So I can't comment on the exact, that
 7 particular point whether it was communicated in explicit
 8 manner that you've described.
 9 MS STEINBERG: We will be having
 10 testimony from Treasury and ministers and we can put those
 11 questions to them. Just one other question before you go
 12 on. Am I correct that when you talk about the factory and
 13 that process of automation that was happening in the middle
 14 of the organisation, that for example the large business
 15 centre, while it began as a complete end to end system it
 16 was always understood that parts of it could and should end
 17 up in the factory, the more back office processes. So when
 18 we talk about segmentation we're talking about an evolution
 19 where each of those segments might start with everything,
 20 but as they grow and as the back office can handle it, the
 21 factory can handle it you pull the more mundane portions
 22 into the factory and again free up more and more people to
 23 deal with that specific customer base.
 24 DR CAROLISSEN: Exactly. So exactly like
 25 you describe it, I can't improve on that, ja.

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1 MS STEINBERG: Thank you, okay.
 2 COMMISSIONER: You're very good, you
 3 can't improve on a lot of it.
 4 DR CAROLISSEN: I must be careful. So I
 5 think that was intended to set some of the strategic
 6 journeys so when we move forward we can understand SARS
 7 came from and why we were at a particular junction. SARS
 8 then have submitted itself to a number of international
 9 reviews to make sure that we are on the right track and
 10 that we can independently from us we can identify areas of
 11 improvement. This was the TADAT 2014 assessment of SARS.
 12 TADAT stands for Tax Administration Diagnostic Assessment
 13 Tool.
 14 MS STEINBERG: And who runs it?
 15 DR CAROLISSEN: It's run by the IMF,
 16 International Monetary Fund and what this shows, they've
 17 measured 27 dimensions of SARS and I've got the full report
 18 and I notice that Bain is referred to, that they've
 19 reviewed a number of reports. I cannot say whether they've
 20 reviewed this one. There's no mention that they
 21 specifically reviewed this and others that I might show
 22 later. So after 27 dimensions that were measured SARS
 23 scores, on 15 of them scores an A. Strong performance,
 24 comparable to good international practise. And I think 11
 25 we are sound performance, healthy level of performance, but

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1 just a rung below international good practise. You will
 2 also notice that you have a B plus and a B minus. So I
 3 would imagine that a B plus is close to international
 4 performance, but that I will leave for your interpretation
 5 when the document is assessed in a bit more detail. And C
 6 meant that minimum requirements are met. Now the one point
 7 where we score a C on is the payment obligation and that
 8 refers to our rather shabby record of collecting debt.
 9 When I say shabby a C is still good, but for us it's not
 10 good. SARS sets a high margin for itself.
 11 So reports like this is not just to say we are a
 12 good organisation or we are world class in international –
 13 but this is actually used for internal diagnostic and
 14 internal improvements because it goes to quite a bit of
 15 detail and provide guidance as to where you can
 16 operationally improve yourself. And many other
 17 organisations have used something similar and this is an
 18 enviable report, many other organisations would give a lot
 19 to have this type of performance registered.
 20 PROF KATZ: Sorry, forgive the
 21 interruption. This was 2014.
 22 DR CAROLISSEN: Yes that's right yes.
 23 PROF KATZ: Did this continue each year
 24 thereafter as well?
 25 DR CAROLISSEN: No it hasn't, that's the

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1 latest one. It didn't happen – there was some discussion
 2 about us getting TADAT in again and do another performance
 3 review.
 4 PROF KATZ: So has there not been one
 5 since 2014?
 6 DR CAROLISSEN: No. 2014?
 7 PROF KATZ: Yes.
 8 DR CAROLISSEN: No. But if there was one
 9 I'd be surprised because I would know about that, but I
 10 don't know.
 11 MR KAHLA: In what cycles would you
 12 normally do this? Is it annual, is it every three years or
 13 so?
 14 DR CAROLISSEN: It's by invitation.
 15 MR KAHLA: By invitation.
 16 DR CAROLISSEN: Ja.
 17 MS MASILO: Dr Carolissen, the target
 18 report, did they assess the objection process of SARS?
 19 DR CAROLISSEN: Look I'll have to find it
 20 here, this is just the one slide I pulled out, I think it
 21 did, I think it did, but I stand to be corrected. So you
 22 need to read the entire report. It's quite a bulky report.
 23 MS MASILO: Okay.
 24 MS STEINBERG: Is an OECD document that
 25 assessed, among other things, SARS' objections process at

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1 that time and found it to be quite low? I think it was an
 2 odd 30% of objections from taxpayers were resolved in SARS'
 3 favour. I looked at that because I was interested to see
 4 if the new operating model then tried to improve that.
 5 That's one of the questions I am posing in the next week or
 6 so.
 7 [10:09] DR CAROLISSEN: I must admit I haven't
 8 read that particular point but I am aware that we have,
 9 we're not doing well in that respect.
 10 MS STEINBERG: That said though, am I
 11 correct that in Bain's initial diagnostic of SARS this
 12 score card didn't feature?
 13 DR CAROLISSEN: I could find no evidence
 14 of this particular review of this document but like I say
 15 they did mention that they've reviewed IMF reports but I
 16 couldn't find evidence that they used this.
 17 MS STEINBERG: I think it's relevant
 18 because when you look at the score card you have to ask
 19 yourself, as at the beginning of 2015 was SARS an
 20 organisation that needed radical restructuring? And on the
 21 basis of this score card you'd say well probably not
 22 because a whole lot is going right.
 23 DR CAROLISSEN: Exactly. And not just on
 24 that. Like I pointed out earlier we're also doing very
 25 well on the revenue, our core mandate, and a whole host of

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1 other factors which I'm going to lift out as I go along.
 2 So this score card was just merely to say you know if I had
 3 to come as a consultant and I would certainly do a
 4 diagnostic, I would first do a status quo review and find
 5 as much as I possibly can on how good the patient is.
 6 You're not going cut unless you've done some diagnostic of
 7 how the patient is doing.
 8 COMMISSIONER: Sorry, so even the score
 9 card aside to follow Carol's question, as of 2014 your
 10 assessment was SARS in need of radical restructuring?
 11 DR CAROLISSEN: Absolutely not because we
 12 had a well-defined strategic journey that we were on. And
 13 we were clear about where we were going, what the next step
 14 should be. In some cases where we're not clear, as they
 15 manifest themselves we were agile enough to deal with that.
 16 So in fact, let me be quite blunt about this, none of us
 17 anticipated radical restructuring. Most of us that
 18 participated in the process, myself included thought that
 19 this was an optimisation of the journey that we are on.
 20 Doing things a little bit smarter, because you must always
 21 be open. We're a learning organisation. So none of us
 22 anticipated a radical restructuring, not in our wildest
 23 dreams.
 24 COMMISSIONER: There was – may I
 25 interrupt?

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1 MS STEINBERG: Please.
 2 MR KAHLA: I wanted to understand that.
 3 Take into account that Bain would have done a diagnostic,
 4 it's part of their models. Were any of the results of the
 5 diagnostics shared with the management and the leadership
 6 of SARS to your knowledge?
 7 DR CAROLISSEN: I think and I would
 8 imagine it was shared with Exco, the complete picture. I
 9 was not aware of, for instance the options that they
 10 generated until I began to prepare for this session that
 11 the options that Bain had put forward. We participated in
 12 the review in different streams, so in other words in my
 13 particular area of operations, which is revenue forecasting
 14 economic analysis, I briefed them on what we're doing, how
 15 we fit into the fiscal framework. I even developed a
 16 position paper which I have with me, which I presented to
 17 them to say this is how research and analysis get treated
 18 in modern tax administrations. But other than our
 19 individual contributions very few that I know of had the
 20 big picture.
 21 MS STEINBERG: Can I confirm that? I've
 22 interviewed many senior people in SARS and everybody
 23 confirmed that the first time they saw the full picture of
 24 what Bain presented was when I gave it to them in
 25 preparation for these hearings.

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1 MR KAHLA: So are you suggesting, forget
 2 about the big picture, let's say in the special area of
 3 your own focus you would not have been told of the areas
 4 that had been identified by Bain as pinpoints needing to be
 5 attended to?
 6 DR CAROLISSEN: I will deal with that as
 7 we go along because I'm going to mention some of my
 8 personal experiences, how I experienced the process. But
 9 like I said none of us had the big picture. We were given
 10 the final results of the final model but we didn't know
 11 what preceded it so it was quite an interesting exercise to
 12 work through this and then begin to pitch back the journey
 13 or to trace back the journey as to how this whole thing
 14 developed.
 15 MS STEINBERG: Yes, as I understand even
 16 the diagnostic wasn't shared in full.
 17 DR CAROLISSEN: Ja.
 18 COMMISSIONER: Is that correct?
 19 DR CAROLISSEN: No, it wasn't shared in
 20 full. So we got parts of it, but I'm going to speak to the
 21 timing because there's some timing issues which are very
 22 important. Perhaps I should deal with it now because –
 23 COMMISSIONER: Deal with it in the order
 24 in which you had in mind. I don't think it's a –
 25 DR CAROLISSEN: I just don't want to

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1 forget about it because it's very important.
 2 COMMISSIONER: I want to raise one thing
 3 though. If you look at the annual performance review that
 4 was, it's signed by Mr Ivan Pillay so it must have been
 5 prepared when he was the acting Commissioner. It speaks
 6 there about a review process that would be taking place for
 7 the next few months. Do you recall that?
 8 DR CAROLISSEN: Yes I recall it. There
 9 was mention that at the time when Mr Ivan Pillay was the
 10 acting Commissioner that he was going to look at the
 11 progress of the strategic journey and then tweak it or make
 12 changes, I'm not sure the extent to which he was going to
 13 go. I haven't seen his intended but I was aware that he
 14 was going to –
 15 COMMISSIONER: To look at what was
 16 happening.
 17 DR CAROLISSEN: To look at the journey
 18 thusfar and what needs to happen next.
 19 MR KAHLA: And that journey would have
 20 included an assessment of how far you had gone in the
 21 implementation of that ISIS model, to start, which you
 22 start implementing in 2010.
 23 DR CAROLISSEN: Exactly. The ISIS model,
 24 if I can use the term was our load star. That was that
 25 defined our strategic shape environment that we moved in.

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1 And it made sense because if you look at the increasing
 2 complexity of the tax world, we need to move to a higher
 3 level of skill set to deal with this. And whether, and we
 4 have to stay ahead of the technology. The schemes and the
 5 scams are becoming so sophisticated, you need very, very
 6 clever people, you need people that can work with data, you
 7 need data scientist, so the skill set, the average skill
 8 set of SARS then and now and into the future needs to be
 9 enhanced quite significantly.
 10 MS STEINBERG: What I have, Commissioner,
 11 and assistants, and I'll put before the commission is an
 12 affidavit from Mr Oupa Magashule who took over from Mr
 13 Gordhan as Commissioner, talking about the changes he made
 14 to the model. And then I have various memoranda from Mr
 15 Pillay when he was Deputy Commissioner, acting Commissioner
 16 at that point talking about the tweaks he wanted to make.
 17 And you do see a continuity between the three. But
 18 interestingly enough what Mr Pillay emphasises to the
 19 Minister is he says this is a fatigue, it's a change
 20 fatigued organisation. And he says whatever we do now, and
 21 this of course is in the middle of 2014, must take into
 22 account that our employees are change fatigued. And it's a
 23 period where we need to consolidate and to energise people.
 24 And I find that ironic that he made that comment right at
 25 the threshold of the biggest change that SARS had seen for

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1 many years. So perhaps you can in time comment on, when
 2 you talk about the experience of yourself and other people,
 3 you can comment on whether you would agree with Mr Pillay's
 4 diagnosis at that point.
 5 DR CAROLISSEN: I can comment on it now.
 6 So yes, look we've got this, we had the strategic journey
 7 that we embarked upon and I think most of us understood.
 8 But the challenges didn't go away. So as you embark on
 9 this journey, some things, some plans that you may have for
 10 the future might have to be brought forward. So for
 11 instance the shift in the BEBS environment. Now those
 12 things couldn't wait for SARS to catch up. So yes, there
 13 was this fatigue but there was also an urgency, that you
 14 cannot just sit back and, and yes, I can understand the
 15 fatigue but it was not a fatigue in the sense that there
 16 were radical changes every time. We understood, at least
 17 I, let me talk about myself, I understood the journey where
 18 we're going and the reason why we're on that particular
 19 path and the urgency in some aspects.
 20 So for instance there might be issues about
 21 eliciting flow of funds that capture the imagination of the
 22 public or smuggling of precious metals or increased flow of
 23 illicit clothing into the country. You can't then just say
 24 we are tired, we are going to wait until we are all
 25 catching our breath. So there were important drivers in

<p style="text-align: right;">Page 757</p> <p>1 the environment that kept us on our toes as well, and 2 that's besides the revenue pressures that we're 3 continuously we're exposed to. Remember we are pressed to 4 deliver as maximum amount of revenue as we possibly can 5 because the fiscal framework and recovery of the fiscal 6 framework, especially post the financial crisis critically 7 depended on us maximising revenue. So I hope, I'm not 8 saying that there was no fatigue, but as I liken some SARS 9 people they would wander all over the place to put a piece 10 the sugar and they line up and they do things so well that 11 they actually take big pride in achieving for instance the 12 revenue targets and achieving important milestones. So the 13 journey was clearly mapped out. Some parts of the journey 14 became a little bit more urgent than others and therefore 15 we needed to be kept on our toes throughout.</p> <p>16 MS STEINBERG: I guess good leadership is 17 about balancing the prerogative to make these changes with 18 your employees and their readiness to implement them.</p> <p>19 DR CAROLISSEN: So ja, it's an 20 interesting environment, SARS.</p> <p>21 PROF KATZ: Sorry, just to follow that, 22 Carol, if I may. If that is the case that they were 23 subject to change fatigue one would have thought that if 24 you're going to embark upon a radical new programme they 25 would have been prepared and helped to, was there any such</p>	<p style="text-align: right;">Page 759</p> <p>1 people that were not placed, they were absolute devastated. 2 And therefore I'm just saying that the best possible change 3 programme will not be able to address people in that state. 4 These were people that were working for 35 years for – 5 sorry let me not exaggerate – 25 years for the 6 organisation, all of a sudden being put out in the 7 departure lounge wondering what did they do wrong? And so 8 it is tough, it's very tough. Potential made to assist 9 with change management but how do you deal with somebody 10 that is just being put out of his job and put on the side 11 and then wondering, what did I do wrong or why am I not 12 good enough.</p> <p>13 MS STEINBERG: Do you remember the 14 morning – sorry.</p> <p>15 MR KAHLA: You can go ahead, I'll follow.</p> <p>16 MS STEINBERG: Do you remember the 17 morning that the appointments were announced?</p> <p>18 DR CAROLISSEN: I remember very clearly. 19 That weekend before the announcements were made about who 20 was appointed and who was not appointed, I walked into my 21 office and somebody asked me what time my appointment was, 22 and I said I think it's 11 o'clock because I thought we 23 would be individually informed as to we were placed or not. 24 And I can't recall who it was but that person then said to 25 me, oh that means that you are placed because all the</p>
<p style="text-align: right;">Page 758</p> <p>1 guidance given to employees, you're tired but we have to 2 embark on this, let's help you to do so.</p> <p>3 DR CAROLISSEN: If you allow me, 4 Advocate, I just want to deal with the change fatigue, just 5 conclude on that and then I'll come to this.</p> <p>6 MS STEINBERG: Go ahead.</p> <p>7 DR CAROLISSEN: I think that change 8 fatigue is probably not as dramatic as you probably have 9 made it out to be. It's a sign of an innovative 10 organisation to continually seeking to improve itself. And 11 sometimes you do get tired but mostly it is energising, at 12 least for me, but I would imagine for some other people 13 also. So coming to this radical, Advocate, Professor Katz, 14 I think I must refer back to my opening statement. This 15 radical change happened at a time when we were all in a 16 state of shock. There's no other way to describe it. This 17 organisation that I joined to get this onto my CV so that I 18 can be learning from the best is now all over the 19 newspapers for all of the wrong reasons. There are rumours 20 of people spying on each other. You don't trust your 21 colleagues anymore. So emotionally we were probably at the 22 lowest level that we possibly can. Now to impose change on 23 top of that, even if you put the best systems in place to 24 deal with that, is going to be very difficult. And so I'm 25 aware that people that were affected, especially those</p>	<p style="text-align: right;">Page 760</p> <p>1 people that they suspected were placed were at the same 2 appointment time. I think it was 11:00 or so. The people 3 that had the individual slots were the ones that were not 4 going to be placed, so that was the summation that, that 5 was what people surmised from looking at what time your 6 appointment was. And it panned out that way. So the 7 people that were placed were called into the room somewhere 8 in this building and explained that you are being placed 9 and that you are, and congratulations.</p> <p>10 When I walked back to the office and I started to 11 begin to gather as to who was not placed, I was astounded 12 and I really started to begin to feel something is not 13 right, because the quality of people that were not placed 14 were people that had a track record of 25 years and even 15 longer in this organisation. Good people, people with lots 16 of experience. And it took me a while to get to my own 17 office because next to me were two of my colleagues that 18 were not placed. But I can promise you I couldn't look 19 them in the eye. I couldn't even go into my office. And 20 after summoning up enough courage I went to them, I had to 21 go to my office, and I apologised for me being placed. And 22 they comforted me and said don't worry, it's fine, we will 23 manage. And so as I said earlier then, the colleagues that 24 we used to work very closely together with each other then 25 found themselves, this one has survived and the other one</p>

<p style="text-align: right;">Page 761</p> <p>1 has not survived. And the ones that survived felt guilty, 2 and it took a long time to get over that.</p> <p>3 Now of course one could then say let me get out 4 of here and walk off. Me personally were persuaded by a 5 lot of important people and I don't want to speak on their 6 behalf. They can confirm if they want to, to not to leave 7 the ship, to stay on board. Those that found jobs left but 8 all of a sudden it became very difficult for SARS people to 9 find work because people became, I don't know whether the 10 job market then said whoa, let's first see whether they are 11 also guilty or they are not guilty. So it was an extremely 12 difficult time. And so since that time many of us had 13 reached out to our colleagues that were not placed and try 14 to find a way to restore relationships. But it's almost 15 like getting divorced and getting married again. I don't 16 know, I haven't been in that position but it's not the same 17 in some cases.</p> <p>18 MR KAHLA: It seems to me from what 19 you've just said Dr Carolissen, you've had the ISIS model, 20 there have been tweaks every now and again, whether by 21 acting Commissioner Pillay or whether by Commissioner 22 Magashule, all of those the impression I'm getting is that 23 there was always a sense around a programme for continuous 24 improvement. What I want to understand is as you now went 25 for pretty much a big bang change what was the change</p>	<p style="text-align: right;">Page 763</p> <p>1 responsible for it. What plans did they have and so, but 2 I'm talking just about my personal experience.</p> <p>3 COMMISSIONER: Just let me get clarity. 4 Were you, what was your title at the time?</p> <p>5 DR CAROLISSEN: I was then at that 6 particular point appointed as the head of Group Executive 7 for TCI, Tax Customs and Excise Institute.</p> <p>8 COMMISSIONER: Group Executive is the 9 layer immediately below Exco, is that right?</p> <p>10 DR CAROLISSEN: That's right, yes. 11 COMMISSIONER: So you reported to Exco? 12 DR CAROLISSEN: My personal position was 13 reporting to the Commissioner. That was one of the 14 exceptions because of the type of work that I do.</p> <p>15 COMMISSIONER: But generally the group 16 executives reported to the respective Exco members? 17 DR CAROLISSEN: The Exco members, yes. 18 That's –</p> <p>19 COMMISSIONER: So it's your first line of 20 hands-on management, as it were?</p> <p>21 DR CAROLISSEN: That's right. Well the 22 way we put it is the execution of strategy happens at Group 23 Executive level. At the level above that is development of 24 strategy, Group Executive executes strategy. Still 25 strategy post but closer to operations, if you wish.</p>
<p style="text-align: right;">Page 762</p> <p>1 management approach that was adopted? How did that, 2 because I'm troubled by the suggestion that you seem not to 3 have gotten enough information around the diagnosis of the 4 problem, why the solution suggested is more appropriate. 5 So I'm interested in just understanding the overall change 6 management that was adopted in this process.</p> <p>7 DR CAROLISSEN: My personal experience 8 with the change management, I didn't get formal change 9 management support in the way that one would normally 10 describe it in a psychological way or counselling or 11 anything like that. The only form of change management was 12 our, there was a channel open for us to introduce 13 improvements or suggestions or omissions of the operating 14 model, and that was meant to provide some recourse for you 15 if you felt that you were unfairly treated or your division 16 was not properly staffed and all of that. So to my mind, 17 and my personal experience, let me talk for myself, that 18 was the only attempt at saying that continue to engage and 19 we will fix if were not done right or not implemented 20 properly. But other than that I'm not aware of any 21 sustained and qualitative and quality change management 22 programme. There might be individuals that receive 23 counselling which I'm not aware of but there was no sense 24 that the organisation was going to be taken along. I think 25 that question must be posed to the person that's</p>	<p style="text-align: right;">Page 764</p> <p>1 MS STEINBERG: Am I correct that your own 2 unit was fragmented in the new operating model?</p> <p>3 [10:29] DR CAROLISSEN: Absolutely, so the 4 position prior to the new operating model I was responsible 5 - my title was group executive responsible for revenue, 6 planning, forecasting and analysis. And this is, I should 7 say this is a unit that was, that existed in a small way in 8 2008, about ten people or so. I was then asked by the then 9 Commissioner to take this over and build it into a fully- 10 fledged research, sorry, forecast, analysis and forecasting 11 unit and prior to the operating model I think we were about 12 70 people in that unit and they were very well qualified 13 people, economists, statisticians, modellers, tax experts 14 and all sorts to do the type of work that I described 15 earlier, the forecasting, the analysis, economic planning. 16 And to also advise the organisation about progress towards 17 revenue attainment and where gaps exist and develop 18 strategies to close those gaps.</p> <p>19 So we were the revenue people. They called us 20 the revenue guys. When they don't know what to call us 21 they call us the revenue guys. So we would then interface 22 with National Treasury, with the Reserve Bank, with Stats 23 South Africa and we would be doing those types of analysis. 24 We would also - what's very important, be doing bottoms up 25 analysis so we'd be tracking individual tax types, how the</p>

<p style="text-align: right;">Page 765</p> <p>1 different offices perform and then identify to the 2 organisation where gaps exist.</p> <p>3 PROF KATZ: Can I just say, sorry, 4 Doctor, all these personnel changes and that, were they all 5 designed to give effect to the new operating model? How 6 does it flow directly from the adoption of the new 7 operating model?</p> <p>8 DR CAROLISSEN: The structure that was 9 then put in place which I think we're going to get to later 10 is a consequence of the adoption of the new operating 11 model.</p> <p>12 COMMISSIONER: And all the personnel 13 changes.</p> <p>14 DR CAROLISSEN: All the personnel 15 changes. So coming back to the unit, so we made sure and 16 we have documentation to that regard that we conform to IMF 17 prescripts about revenue forecasting, analysis and stuff. 18 So we meet with the IMF at least once a year and they look 19 at our methodologies and they look - and they are very 20 clear that we at that stage were one of the top forecasting 21 units in the world. Okay. And we've got evidence to that 22 regard about how well we did.</p> <p>23 MS STEINBERG: It's that unit, that top 24 unit that was broken up.</p> <p>25 DR CAROLISSEN: So post the operating</p>	<p style="text-align: right;">Page 767</p> <p>1 trouble. So we have an agreement with them that we will 2 not refund more than a billion rand. If we go higher than 3 a billion rand we will give you timeous warning so that you 4 don't run out of cash.</p> <p>5 So that interaction on that cash flow was 6 critically important for our National Treasury's cash flow 7 perspective and how well they manage it because if we get a 8 drop they might borrow on the short term at high cost 9 unnecessarily so or they might find themselves short of 10 borrowing. And that part is critically informed by what we 11 see is happening in the operations because we can't give 12 them forecasts and we don't know where the money is going 13 to come from. And therefore that destruction of that value 14 chain to my mind was absolutely devastating and we still 15 sit with those problems today.</p> <p>16 MS STEINBERG: Was there a rationale 17 given for it?</p> <p>18 DR CAROLISSEN: The rationale was that we 19 have to separate short term forecasting from long term 20 forecasting so I - and the TCI environment has become more 21 research focused and look more at the medium term, the 22 longer period time, look forward and say what's going to 23 happen into the future whereas this what I've just 24 described to you is more the short term forecasting, you 25 know, on a daily basis, on a weekly basis, on the next</p>
<p style="text-align: right;">Page 766</p> <p>1 model that unit was split in three so the analysis part 2 went to finance and that's probably also important that I 3 mention it. The analysis and the cash flow analysis 4 division went to finance. I kept the forecasting division 5 and the data analytics division went to strategy. So to my 6 mind that very important value chain was split up and up 7 till today I will put it on record that we are, not 8 probably, we are not as effective as we used to be because 9 now people are working across these boundaries.</p> <p>10 In fact we are - that value was destroyed that 11 existed if I can be as blatant as that. Now, the cash flow 12 part was extremely important because the cash flow part 13 takes our annual revenue forecast, in other words the full 14 year forecast, and they literally break it down into daily 15 forecasts per tax type and how much we expect to collect on 16 a daily basis. On some days SARS might be in a net refund 17 position, in other words only money flowing out, in other 18 days we might collect as much as R50 billion on one day 19 especially on the last day and I think that's why my hairs 20 are grey.</p> <p>21 So it's important that daily cash flow be tracked 22 very efficiently, very effectively because the National 23 Treasury's cash flow depends on that. So if there is a 24 refund due, a big refund of a billion rand, and National 25 Treasury don't have the funds then they're going to be in</p>	<p style="text-align: right;">Page 768</p> <p>1 month's basis and that was the rationale why it was split 2 up.</p> <p>3 And the other rationale that was proffered was 4 that cash flow is an accounting function. It doesn't 5 belong to you. And that was not without me not objection 6 very strongly. Those that know me know that I'm very 7 vociferous. At the time that we consulted I provided a 8 document to say how are these things managed in other tax 9 administrations and I provided some best practice. None of 10 that was implemented and I wasn't told why it was not 11 implemented.</p> <p>12 COMMISSIONER: Sorry, to whom did you 13 object?</p> <p>14 DR CAROLISSEN: Yes, of course.</p> <p>15 COMMISSIONER: No, to whom?</p> <p>16 DR CAROLISSEN: I objected to the design 17 team that we were allowed to make representations to.</p> <p>18 COMMISSIONER: The design team of?</p> <p>19 DR CAROLISSEN: There was a team put 20 together within SARS. What was it called?</p> <p>21 MS STEINBERG: The project -</p> <p>22 COMMISSIONER: The steering committee.</p> <p>23 DR CAROLISSEN: Steering committee, ja.</p> <p>24 COMMISSIONER: Mr Makwakwa headed the 25 steering committee.</p>

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1 DR CAROLISSEN: And then you, whenever
 2 you had objections or you wanted to make changes or object
 3 to certain design principles that were not followed you
 4 were allowed to make these representations. I made a
 5 number of that and then eventually I just gave up.
 6 MR KAHLA: Am I correct in understanding
 7 you that the steering committee was merely clarifying the
 8 position that would have been put together by your
 9 consultant, Bain, or was it just post the Bain assessment
 10 decision then that we were driven more by the steering
 11 committee? Because I'm interested in understanding, going
 12 back to the rationale you've raised around the splitting of
 13 short term and long term forecasting, whether the - you've
 14 suggested that you provided examples of how it's done in
 15 other tax authorities. I'm interested in understanding
 16 whether there were any benchmarks presented that suggested
 17 that actually those better and more effective tax
 18 authorities do it differently. They split it as suggested.
 19 DR CAROLISSEN: So I actually did provide
 20 the American example benchmark and I laid it out completely
 21 because to me that sort of presented the best way of doing
 22 these type of things. So let me just be very clear about
 23 this. The splitting of the short term and the long term
 24 cannot be separated because our strength in our
 25 participation in the raw process lies exactly in us

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1 understanding the day to day operations because some of the
 2 taxes lend itself to not just being forecasted for or
 3 extrapolated.
 4 You have to understand the time lags. You have
 5 to understand the dynamics. You have to understand the
 6 taxpayer mood when they make a provisional payment. So the
 7 critical, the strength that we bring to the forecasting
 8 pot, and this is what our colleagues in the Reserve Bank
 9 and National Treasury admit to and tell you, is exactly our
 10 insight into the operational, the way the operations get
 11 done and the way money gets collected.
 12 So that's quite important. So splitting short
 13 term and long term doesn't make sense to me. Let me be
 14 very blunt about that. The committee was intended, the
 15 steering committee was intended to entertain submissions
 16 that suggest that there can be, that things, sorry, that
 17 there could be improvements in the operating model so they
 18 could actually make decisions. They could actually say
 19 okay, we agree with you that this is not the optimal way or
 20 we might have had an oversight here. So it's not just a
 21 consulting committee and say please explain to me how you
 22 arrived at it. They actually had power to implement and
 23 they did that on a number of occasions to change the
 24 operating model.
 25 MS STEINBERG: And that committee

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1 comprised SARS people as well as Bain people.
 2 DR CAROLISSEN: I'm not sure what power
 3 Bain had in that committee. I think they played an
 4 advisory role. I don't know. I don't know the dynamics
 5 of, or the governance of that particular committee but SARS
 6 made the call.
 7 MS STEINBERG: Ja.
 8 MR KAHLA: But to get you right you're
 9 saying no benchmark was actually presented to you. You
 10 provided your own understanding and what you thought was
 11 right based on what you had seen in other jurisdictions but
 12 you were not provided with other independent benchmarks.
 13 DR CAROLISSEN: Except the explanation
 14 that I've just given to you. Okay, so I'll skip through
 15 this because there's a number of other studies that I can
 16 refer to so the FATCA is, and I need to get this right,
 17 Foreign Account Tax Compliance Act of the United States
 18 recently passed. They insist - it's not on that particular
 19 slide. It's just an interlude here. So the United States
 20 government certified SARS as a fully compliant and reliable
 21 tax administration for the purpose of automatic exchange of
 22 information under Foreign Account Tax Compliance Act.
 23 So that's an endorsement of the SARS capability.
 24 SARS also did a, and I'm now going to the slide, SARS also
 25 did a review performed by Ernst & Young that said that the

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1 SARS governance programmes worked effectively. The
 2 auditor-general has since 2003 to 2004 issued unqualified
 3 audit reports for both administrative revenue and own
 4 accounts. In 2012 Ernst & Young conducted an audit of SARS
 5 governance and risk systems.
 6 In this review SARS information technology
 7 alignment and coordination strategy and objectives in SARS,
 8 process improvement and efficiency were mostly assessed to
 9 be advanced. So advanced means if you score higher than
 10 3.5. Three means you meet the standards and then of course
 11 below that is adequate and all of those other things. So
 12 I'm putting this forward because I am aware that SARS
 13 governance was questioned and an independent review
 14 produced this result and then of course -
 15 MR KAHLA: Questioned by who?
 16 DR CAROLISSEN: No, I'm aware that even
 17 in Exco there was questions about the adequacy of the
 18 governance systems prior to the operating model.
 19 COMMISSIONER: But the point you're
 20 making, Doctor, on all of this SARS was in a good state of
 21 health.
 22 DR CAROLISSEN: That's what I'm trying to
 23 do, ja. So I'm trying to use different diagnostics, sorry,
 24 different approaches to find a point of intersect and
 25 that's basically the point that I wanted to drive home in

<p style="text-align: right;">Page 773</p> <p>1 essence.</p> <p>2 [10:29] MS STEINBERG: We're going to have to</p> <p>3 hear from Bain on this because one of Bain's central</p> <p>4 rationale for I suggest the quite radical change was the</p> <p>5 suggestion that governance was not up to scratch,</p> <p>6 particularly what is called the separation between the</p> <p>7 first line of defence and the second line of defence. But</p> <p>8 this seems to suggest something else.</p> <p>9 DR CAROLISSEN: So ja, this is what I've</p> <p>10 - they have to be asked that question. There's no doubt</p> <p>11 about it. Why do they make that assertion and on what</p> <p>12 grounds? I can't speak for them. Okay, so then just on a</p> <p>13 further comment on the health of SARS which I referred to</p> <p>14 earlier the average tax buoyancy ratio of 1.2 so we're</p> <p>15 collecting well ahead of the economy. The modernisation of</p> <p>16 the tax administration, turnaround times as I've mentioned</p> <p>17 earlier shrinking to merely minutes. Professor Katz would</p> <p>18 know how long it used to take, months for you or sometimes</p> <p>19 even years to get your return assessed and your money paid</p> <p>20 out.</p> <p>21 And then also very interestingly and I will deal</p> <p>22 with this, the migration of more than 90% of taxpayers onto</p> <p>23 our electronic systems and that makes, that's quite - when</p> <p>24 we tell our foreign peers this they are amazed that a third</p> <p>25 world country or developing country has achieved that level</p>	<p style="text-align: right;">Page 775</p> <p>1 DR CAROLISSEN: Exactly.</p> <p>2 COMMISSIONER: It seems to be an obvious</p> <p>3 conclusion. But am I wrong?</p> <p>4 DR CAROLISSEN: No, no, you're completely</p> <p>5 right so sometimes when we find people that you expect to</p> <p>6 be able to use the e-filing from home you find them in the</p> <p>7 queues as well and then you say why is it. Oh no, no, I'm</p> <p>8 not taking chances with SARS. I rather queue and let them</p> <p>9 capture it and then I know that I'm on the safe side. So</p> <p>10 there's all of this psychology that you have to work</p> <p>11 through, psychological factors that you have to work</p> <p>12 through. So and then -</p> <p>13 COMMISSIONER: Sorry, Doctor, may I just</p> <p>14 for a moment - do you want to have a cup of tea?</p> <p>15 MR KHALA: I'm still fine.</p> <p>16 COMMISSIONER: Thanks. We'll carry on.</p> <p>17 DR CAROLISSEN: So the start of the</p> <p>18 customs modernisation programme which gained traction, this</p> <p>19 I borrowed from one of my customs colleagues, which gained</p> <p>20 traction in 2011 delivered wide-ranging improvements,</p> <p>21 halving the time it takes to import world class automation</p> <p>22 and substantial compliance improvement relating to illicit</p> <p>23 cigarettes, clothing and textiles. So although the customs</p> <p>24 programme is in its infancy we already started to see some</p> <p>25 gains from that since 2011. Okay, but by far it stopped to</p>
<p style="text-align: right;">Page 774</p> <p>1 of coverage. Now, admittedly, and I said this in the big</p> <p>2 document that I have submitted to you, Advocate, admittedly</p> <p>3 a large amount of people still queue at the branches to get</p> <p>4 to do their electronic submission, in other words the e-</p> <p>5 filing.</p> <p>6 The e-filing that we do at home many people</p> <p>7 prefer to go to the branches to go do it at the branch and</p> <p>8 that causes congestion at the branches. And the reason I</p> <p>9 think it's happening is because people are under the</p> <p>10 illusion that if they do it at the branch they will get a</p> <p>11 refund, number one, but number two is as coverage improve</p> <p>12 people become more au fait with internet and bandwidth</p> <p>13 costs drop. That should be a, that should improve</p> <p>14 radically. And of course we need to be clever about</p> <p>15 managing queues. So the congestion at branches to my mind</p> <p>16 indicates not an inefficiency but rather an over exuberance</p> <p>17 if I can be as glib as that but that is my assessment.</p> <p>18 COMMISSIONER: Well, I would imagine that</p> <p>19 there are a lot of people that even with e-filing go there</p> <p>20 to get assistance to put it onto the e-filing.</p> <p>21 DR CAROLISSEN: Some of us -</p> <p>22 COMMISSIONER: Even I find it, it sounds</p> <p>23 quite difficult but I mean there must be - you're getting</p> <p>24 greater compliance, most people who have not been educated</p> <p>25 into revenue systems.</p>	<p style="text-align: right;">Page 776</p> <p>1 my mind way too soon.</p> <p>2 COMMISSIONER: And what happened, what's</p> <p>3 happened in customs since 2014?</p> <p>4 DR CAROLISSEN: Judge, I'm going to deal</p> <p>5 with that when I say post the period. I've got it written</p> <p>6 down so I won't - and if I forget please remind me.</p> <p>7 MS STEINBERG: And we have a whole</p> <p>8 morning of evidence on customs.</p> <p>9 COMMISSIONER: Okay.</p> <p>10 DR CAROLISSEN: So let me get to the Bain</p> <p>11 diagnostic. So as I referred to earlier the Bain</p> <p>12 diagnostic - I'm not aware of them using some of the</p> <p>13 documents that I've made available here today so that</p> <p>14 question need to be asked. So it says in its context a</p> <p>15 six-week diagnostic was conducted in February 2015 to</p> <p>16 review the SARS operating model. Seven tax and customs</p> <p>17 authorities were benchmarked, 50 management interviews, six</p> <p>18 external stakeholders, 180 survey responses from senior</p> <p>19 managers and SARS internal and external reports.</p> <p>20 The diagnostic strategic plan and operating model</p> <p>21 were presented to the minister of finance as well as the</p> <p>22 SARS advisory board in April 2015. The diagnostic</p> <p>23 highlighted a number of areas for SARS to address. Reduce</p> <p>24 the tax gap and focus on high net worth individuals, SMME</p> <p>25 debt customs/excise, increase the level of goods and</p>

<p style="text-align: right;">Page 777</p> <p>1 control in customs. Now, there's a timing problem for me 2 here. The report was shared or the diagnostic was shared 3 in April 2015.</p> <p>4 The diagnostic which I led, I led the tax stream 5 diagnostic, only commenced in July 2015. So I cannot see 6 how that analysis could've fed into the diagnostic that was 7 presented in April and I tell you why I can't see it. 8 Because at the time when we commenced our diagnostic in the 9 tax stream in around about July, June/July 2017, I've got 10 the exact date in my submission, it was post the fact, in 11 other words it was post the operating model and it was then 12 done and I was told that we have the opportunity now of the 13 Bain analysts to see whether we can improve revenue 14 performance. So it was not done for me. I was not told 15 that it was done to feed into the operating model 16 diagnostic because that was already presented in April. So 17 that timing issue is problematic for me.</p> <p>18 MS STEINBERG: So am I understanding you? 19 You're saying that information that should have informed 20 the diagnostic was done after the diagnostic?</p> <p>21 DR CAROLISSEN: That's in essence what 22 I'm saying.</p> <p>23 PROF KATZ: Sorry, can I just ask the 24 corollary of that, then what information was used to inform 25 the Bain diagnostic?</p>	<p style="text-align: right;">Page 779</p> <p>1 reports.</p> <p>2 COMMISSIONER: That as they say was all 3 gathered for the purpose of the diagnostic?</p> <p>4 DR CAROLISSEN: Which was presented to 5 the Minister in April 2015.</p> <p>6 COMMISSIONER: Six weeks, according to 7 this.</p> <p>8 DR CAROLISSEN: According to this, I'm 9 quoting directly from this report.</p> <p>10 COMMISSIONER: But would you just raise 11 with, I want to know whether this was 26 days or six weeks, 12 I've seen both figures.</p> <p>13 MS STEINBERG: I've noted that.</p> <p>14 MR KAHLA: Why was it presented to the 15 Minister?</p> <p>16 DR CAROLISSEN: That's protocol. You 17 have to keep your Minister abreast of changes such as this.</p> <p>18 MR KAHLA: Just for information, does he 19 have any role to play in that?</p> <p>20 DR CAROLISSEN: There's been a debate 21 about the powers of the Minister vis-à-vis that, 22 Commissioner, and I'm not sure what the exact situation is 23 but normally if, because you work so closely with the 24 minister you would advise and inform the Minister and get 25 his opinion on any major initiatives you may want to, it's</p>
<p style="text-align: right;">Page 778</p> <p>1 DR CAROLISSEN: So if you go back to 2 bullet 1 it exactly describes what was used at the time. 3 The management interviews, external stakeholders, 4 benchmarking, 180 surveys, SARS internal data and external 5 reports. That was used. But in the Bain back that I 6 received here it is suggested that the diagnostic used the 7 tax gap and the HMWI and SME analysis.</p> <p>8 COMMISSIONER: This is all said to be 9 done in six weeks.</p> <p>10 DR CAROLISSEN: The diagnostic was done 11 after a six-week period, six-week diagnostic.</p> <p>12 COMMISSIONER: I must say and I hope - is 13 someone from Bain here? But would you convey to them their 14 account shows it was done in 26 days? That's what I've 15 seen. Am I right?</p> <p>16 MS STEINBERG: You're right, yes.</p> <p>17 DR CAROLISSEN: Sorry, I'm just reading 18 plain from this -</p> <p>19 COMMISSIONER: I think, just read that 20 again, how many employees did they -</p> <p>21 [10:49] DR CAROLISSEN: A six-week diagnostic was 22 done in February 2015. Seven tax and customs authorities 23 were benchmarked, 50 plus SARS management interviews, six 24 external stakeholders, 180 plus survey responses from 25 senior managers and SARS internal data and external</p>	<p style="text-align: right;">Page 780</p> <p>1 just good, I think just good relationship management.</p> <p>2 MR KAHLA: But is it your knowledge 3 whether it was done just for information or as part of a 4 consultative process?</p> <p>5 DR CAROLISSEN: Okay let me believe that 6 was presented to the Minister of Finance and at some stage 7 that Minister of Finance must have said, either signed off 8 or said I'm happy or continue. I can't, I don't want to go 9 into an area that I'm not familiar with.</p> <p>10 MR KAHLA: That's fine.</p> <p>11 MS STEINBERG: Mr Kahla, we'll deal with 12 that later. There was a memo prepared by the Commissioner 13 for the then Minister of Finance who signed off at a high 14 level and we'll hopefully be able to ask the Minister of 15 Finance himself about what that entails. Sorry may I say 16 there's still a fair amount to cover from Dr Carolissen and 17 I've sensed a bit of shuffling. I wonder if we just 18 shouldn't take a short break for people to, a comfort 19 break.</p> <p>20 COMMISSIONER: Is that okay Doctor, say 21 15 minutes? Is that okay?</p> <p>22 MS STEINBERG: 15 minutes, its 5 past 11.</p> <p>23 COMMISSIONER: Thank you.</p> <p>24 [INQUIRY ADJOURNS INQUIRY RESUMES]</p> <p>25 [11:17] DR CAROLISSEN: So I think the Bain</p>

1 diagnostic, one of the issues that I point out which is
 2 quite worrying for me is the timing difference which I
 3 referred to earlier. The diagnostic, the research, the
 4 analysis that were done with regards to some of the aspects
 5 mentioned in the diagnostic were done after the
 6 presentation of the diagnostic report to the Minister.
 7 There could be a good, I don't know, there just doesn't
 8 make sense. So I've got to deal with some of the
 9 diagnostics which I think needs uplifting, not with all of
 10 it, in the interest of time. So first of all the tax cap
 11 that was forwarded as the reason for or one of the primary
 12 reasons for restructuring.

13 So first of all most tax administrations do
 14 research tax cap, the gap between what should be collected
 15 and what is actually collected and most tax administrations
 16 do that from a top down approach. So you would look at the
 17 macro economy, you would look at the GPD, you would look at
 18 imports and all those things and then you would do high
 19 level analysis and get to some form of a tax gap. Now in a
 20 developing world context that's normally put at 30% of the
 21 revenue collected but it is, most tax administration will
 22 also tell you it is not accurate, that's the best way to
 23 describe it. So what most tax administrations do to
 24 quantify a tax gap is what they call the bottoms up
 25 approach and there's a number of methodologies that you can

1 use to get a bottoms up number. I know Sweden uses the
 2 random audit approach. So they would take and select a
 3 particular industry or segment, take 20 or so of their best
 4 auditors and go in there and actually do assessment of tax
 5 payers operating in that segment and then from there
 6 there's statistics that you can use to determine the tax
 7 gap in that segment and that is found to be a lot more
 8 useful and a lot more effective because as you identify the
 9 tax gap you at the same time also identify strategies to
 10 close it out. Again the Swedish example they would for
 11 instance choose the hairdressing industry, understand the
 12 dynamics of the hairdressing industry, close that out but
 13 what normally would happen is that you would have a wider
 14 impact because the restaurants next to the hairdresser
 15 would become aware of the interest of the taxman in the
 16 affairs and so you would move from segment to segment. The
 17 Americans use data analytics to, and credit card data to
 18 track owners transactions of small, medium businesses and
 19 from that they develop a profile of a typical small
 20 business owner and from there they use statistics to get
 21 it.

22 So the point I want to drive home here is, is
 23 that the macroeconomic is the best indicative of a tax gap.
 24 The more substantive work is done when you actually go onto
 25 the ground and do a bottoms up analysis. Now in the case

1 of SARS we have done numerous tax gap studies and the
 2 numbers are in that BAITs proposed but what we found best
 3 is if we tackle systematically areas that are shown or
 4 manifest themselves clearly as tax gap issues and zone in
 5 on that and I want to use some e3xamples.

6 So for instance our offshore Panama paper
 7 programme. We, because of our negotiations, sorry because
 8 of the leading role that we play in the OECD Mr Kosie Louw
 9 was the head of the Exchange of Information Committee, it
 10 had some fancy name the one that I just described now and
 11 we used that data to obtain information to deal
 12 specifically with offshore wealth and that programme has
 13 netted us R3 billion and is now being entrenched as
 14 business as usual. So it's very difficult for people
 15 holding offshore wealth even in a tax haven to be off our
 16 radar and so that is one of the ways that we're tackling.
 17 Another way that we tackle it is to look at in addition and
 18 I'm starting to move towards higher net worth individual,
 19 in addition to the high net worth individual that we had in
 20 our net we also became aware that there were people that
 21 were extremely wealthy but they did not qualify as high net
 22 worth in the sense that the definition would qualify them.
 23 So these would be people that have different tax products,
 24 mostly for each tax type, tax product be operating under
 25 the radar but when you start to aggregate it you find them

1 to be fantastically wealthy and so we have developed a
 2 programme called a prominent business individual profile
 3 and we've developed methodologies and we were very
 4 successful last year in piloting in the Western Cape this
 5 programme and netted a billion rand. So we understand
 6 those dynamics and we will be rolling out nationally.

7 The same, I shouldn't let too much off the, slip
 8 to much but the same approach we're going to follow in the
 9 game ranging industry and so that's the way that we work
 10 bottoms up to begin to understand the industry, pilot it,
 11 understand how it works and we actually do find a receptive
 12 audience on the other side because once we explain to them
 13 from the education perspective it is better to be in the
 14 net then you can qualify for incentives from government and
 15 a whole host of export opportunities and all those things.
 16 Then all of a sudden you then begin to win people's minds
 17 and hearts over. So that's the approach we follow the tax
 18 gap. So therefore the publication or the motivation of
 19 saying that this was tax gap is a crisis and we need to
 20 intervene and change the structure of SARS, it doesn't make
 21 sense because all tax administrations are aware of a
 22 macroeconomic tax gap and they work around it, sorry they
 23 work with it and develop strategies. So that to me in my
 24 professional judgment was not a compelling reason to go and
 25 change the structure of the organisation. There are a

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1 couple of inaccuracies, let me deal with one of them. So
 2 for instance they found that trade mispricing led to losses
 3 to the fiscus and the analysis is simply just not solid
 4 enough, substantive enough.

5 There is a trade asymmetry phenomenon that all
 6 tax administrations deal with and let me quickly explain
 7 what is trade asymmetry. Trade asymmetry means if I export
 8 from my country to country B, from country A to country B
 9 and C and D then the exports that leave my shores must add
 10 up to all the imports from my country and then things are
 11 balanced. Now if there's asymmetry then normally people
 12 would say something is not right and on that simplistic
 13 basis they deduce that there's trade mispricing and that
 14 there's smuggling of stuff. If you understand global trade
 15 statistics and I had the good fortune of going to the
 16 United Nation system, a month ago to resolve some of our
 17 trade dissymmetry issues that we have. If you understand
 18 those dynamics well you will understand why there is trade
 19 dissymmetry because countries first of all have different
 20 reporting systems. Some countries report on FOB, others
 21 report on CIF. Some countries don't take into account
 22 third party routing of trade. So for instance if we route
 23 our trade through Hong Kong to China, China don't count
 24 Hong Kong, they count it as direct import from South
 25 Africa.

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1 So you have to understand those trader dynamics
 2 and both in those corrections before you can pronounce on
 3 trade symmetry properly and this I found lacking in the
 4 analysis. In fact that cannot be the basis for trade
 5 mispricing. There is trade mispricing going on. I will
 6 not say that, say that there's not going on. But you have
 7 to be scientific about it and we have developed that
 8 methodology. So -

9 MS STEINBERG: So can I just make sure I
 10 understand you. You're saying that because different
 11 countries measure these things in different ways you
 12 misread the statistics if you just look at them at face
 13 value?

14 DR CAROLISSEN: You cannot look at them
 15 at face value. You have to, so for instance when we
 16 analyse our trade with Turkey, because we're busy doing
 17 that and we're comparing notes. We have to take into
 18 account the number of things. So first of all the stuff
 19 that go to Turkey might be routed via a different country
 20 before it gets to Turkey. Then on top of that, which I
 21 didn't mention because I wanted to keep, ja, we also have
 22 to track the flow of funds because payments could be made
 23 to Switzerland before the payments get repatriated to South
 24 Africa. If you take precious metals for gold for instance,
 25 I can sell gold many times without having, it having

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1 crossed our borders. It can stay in our vaults in,
 2 wherever it, I can't say too much. But you have to
 3 understand the underlying dynamics before you can pronounce
 4 on just glibly I think on trade mispricing.

5 So that's some of the issues that I felt was done
 6 unprofessionally and shallowly. Okay so with that few
 7 remarks around the Bain diagnostics, and I can go into a
 8 lot more of that, if you so wish. But that just says to me
 9 that it was probably not just done as well as it should
 10 have and also given the fact that there were diagnostics
 11 available like I showed to you on the slides before, I
 12 wonder to what extent those were incorporated. So if you
 13 go to the Bain operating model options that were generated
 14 and I would hasten to add this is the first time that I've
 15 seen it when you provided me with this information. Okay.
 16 If you were to analyse it and I just chose one example,
 17 because the others are all nuances of this particular
 18 example. The nuances being reducing span of control,
 19 introducing deputy commissioners at different places
 20 etcetera, etcetera, etcetera but in essence what I would
 21 put forward is that this is no different from the 2008
 22 model that we proposed because clearly you will see, sorry
 23 I can't point to you, you can clearly see the tax types on
 24 top there. The individuals, business and customs and then
 25 below that you will start to see your factory environment,

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1 the 3 000 people in your service channels and processing
 2 and then you will see your enforcement below that and then
 3 of course your support functions surrounding it. So this
 4 is, how can I put it, this is a 2008 model variance, sorry
 5 this is 2008 model with small variances, tweaks to it.

6 The question that I asked myself when I saw this
 7 is to say to myself so why did we spend all of this to come
 8 to the same conclusion because if we had first done a
 9 proper status quo analysis we would probably not have gone
 10 through all this pain to eventually come to a similar type
 11 of arrangement. So this is the tax type model and the
 12 segmentation model because you see in there, there is tax
 13 payer strategy, relationship, management, compliance, risk,
 14 debt collection. There are elements of the segmentation
 15 model in there and then you have the factory approach below
 16 which is the route, the route that we have elected to take.
 17 So this is just no big for me personally at least a big
 18 variation. The taxes were slightly differently organised.
 19 So individual taxes and the business taxes and then customs
 20 was stripped out of the previous model and that was fine,
 21 because the, as I indicated earlier the customs processing
 22 part of the customs would have gone also into the factory
 23 and that would present then the forward looking, the front
 24 office part of the interface, the business interface of
 25 customs.

<p style="text-align: right;">Page 789</p> <p>1 PROF KATZ: Could I ask a question. 2 Sorry Dr Carolissen, I think in your evidence earlier this 3 morning you indicated, as I understood that the final Bain 4 model differed materially from what, which one is this? 5 DR CAROLISSEN: This, ja, I'm going to 6 come to that, this is the initial options generated by 7 Bain. The four options. So this is at the example 2. So 8 that's why I just chose one because when I looked at it 9 they're basically the same except for nuanced differences 10 of, the deputy commissioners got to be inserted in 11 different places and stuff. So - 12 MS STEINBERG: So if I can interject. 13 The process that Bain undertook as I understand it, is they 14 started with their diagnostic and then they developed 15 design principles which could then manifest in different 16 types of models and they gave the Commissioner four 17 options, all of which respected and embodied those design 18 principles and as Dr Carolissen said they weren't that 19 different, there were some differences. The Commissioner 20 rejected those four models and came to what is known as the 21 final operating model which I think our witness is going to 22 talk to now. 23 COMMISSIONER: Thank you. 24 DR CAROLISSEN: I'm moving in that 25 direction. So, ja, it's exactly what she's described but</p>	<p style="text-align: right;">Page 791</p> <p>1 strategic part of the business, the international liaison 2 and the political part of the business. So it depends on 3 the comfort that the Commissioner have, would have with his 4 support structure, whether he would be able to allocate and 5 the maturity also of the organisation, how much of his 6 powers would allocate to different people and that's all, 7 that was also part of the journey. 8 MS STEINBERG: I've been told, I wonder 9 if you could comment on it, that again that concentration 10 of power that we see under the chief operating officer was 11 also changing, it was evolving. That, the chief operating 12 officer was in charge of modernisation and in order to make 13 sure that modernisation worked across the whole value chain 14 he had lots of the organisation under his control but then 15 in fact the plan over time was once there was readiness was 16 to break off some of those pieces and leave him with the 17 smaller chunk of the organisation, is that right? 18 DR CAROLISSEN: That's completely 19 correct. So one of the reasons that why we had such a 20 concentrated power was exactly because of the embedding of, 21 the effective embedding of the technology into this and it 22 was, and you're completely right. We all understood that 23 eventually some parts of that structure would be evolved 24 out and especially customs because the customs 2014 bill 25 calls for certain structural adjustment. So it was always</p>
<p style="text-align: right;">Page 790</p> <p>1 that's the rest of my presentation. So an important design 2 principle that was upfront, which to me does not make 3 sense, oh sorry I don't put so much weight on it. Was the 4 issue of the concentration of power in particular divisions 5 and the reason why I say it doesn't, give it so much weight 6 because of the complexity of SARS, invariably there's got 7 to be individuals with large amounts of power. I mean you 8 have deputy commissioners earlier, you had chief operating 9 officers. For me the main and I will show it later, the 10 main failure of this, right through to the end was the 11 neglect and the evisceration of the principles of the I- 12 SARS model and the segmentation that we adopted right at 13 the start as our load staff for our strategic journey. 14 So, but having said that it's the full right of 15 any Commissioner or any person in charge to say I want to 16 have less power concentrated in some individuals and I 17 think this model was rest on that to deconstruct that COO 18 model that had 9 000 people in it into more manageable 19 chunks or more, less concentrated chunks and this is 20 probably what, why this model in its form operated, sorry, 21 came about. So coming back to the previous version where 22 the COO had 9 000 people, I personally don't have a problem 23 with that because in many tax administrations the 24 Commissioner would assign the operations to a chief 25 operating officer so that he can concentrate on the</p>	<p style="text-align: right;">Page 792</p> <p>1 our understanding that customs eventually would be 2 separated out. So this was not a new discovery, if I can 3 put it as an epiphany or a revelation. 4 MS STEINBERG: Yes and in fact the large 5 business centre was never under his domain. 6 DR CAROLISSEN: Was never under his - 7 MS STEINBERG: That was separate, ja. 8 DR CAROLISSEN: It was always going to be 9 kept separate, ja. 10 MS STEINBERG: Ja. 11 DR CAROLISSEN: So when I say and perhaps 12 it doesn't describe it as well as I describe it, the slide 13 but the principles of the 2008 conceptual model found 14 expression in here because you have your processing centre, 15 your factory environment and you have your specialist 16 functions where you have highly specialised people dealing 17 with very specialised functions. So that principle came 18 through in the Bain operating model principle, options that 19 were provided. We did not see this, we only saw the final 20 results. So if you then go to the next slide, we can come 21 back to this. No, no I did something silly now. 22 MR KAHLA: How different are the 23 examples. You've just given us example 2 out of four 24 examples. As has been indicated earlier, all of those four 25 examples in respect of options were actually discarded.</p>

<p style="text-align: right;">Page 793</p> <p>1 But how different were those other three?</p> <p>2 DR CAROLISSEN: So the other four had</p> <p>3 exactly these principles that I described. Back office</p> <p>4 processing, factory environment, specialised functions, the</p> <p>5 nuances between the four models would be where you place</p> <p>6 the span of control. Okay so for instance in this</p> <p>7 particular example there was a Deputy Commissioner, customs</p> <p>8 and excise. In some of the other examples, unfortunately I</p> <p>9 didn't load them but they're in the pack. The Deputy</p> <p>10 Commissioner would sit at a much higher level, almost like</p> <p>11 a COO level and in some other cases it would more in the,</p> <p>12 you know, so the basic underpinnings which I've described</p> <p>13 is evident in all of the other models. The processing</p> <p>14 side, the factory side, I mean and the specialised side.</p> <p>15 So that's why I didn't even bother to put all the others</p> <p>16 up. I just took one, in fact this I took random and said</p> <p>17 let me just pull this one up and, what could ask Bain a bit</p> <p>18 more detail, were there intents to have differentiation</p> <p>19 between their models, what were the intent, according to my</p> <p>20 mind it carried through all the design principles of the</p> <p>21 hybrid model as we knew it. Factory environment built</p> <p>22 below a strong specialised tax type functioning unit which</p> <p>23 would include LBC and all those things.</p> <p>24 MR KAHLA: You've indicated that</p> <p>25 ultimately the four were rejected?</p>	<p style="text-align: right;">Page 795</p> <p>1 DR CAROLISSEN: Okay, so this is just a</p> <p>2 repeat of the previous slide and my interpretation of the</p> <p>3 groupings that then emanated in the final model that was</p> <p>4 adopted. So the red circling is the individuals that were</p> <p>5 now combined with the businesses and with the service</p> <p>6 channel, the factory also. So the specialised functions</p> <p>7 and the factory are now lumped together and giving us a</p> <p>8 division strong, roughly 4500 people responsible for 80% of</p> <p>9 the revenue. So that's just taking the customs revenue</p> <p>10 out. And that to my mind was a reversal of the intent to</p> <p>11 deconcentrate power. Now when Bain, I read the Bain</p> <p>12 submission they said in their submission that they don't</p> <p>13 have a problem with this grouping because this grouping is</p> <p>14 not really a concentration of power because it's only the</p> <p>15 business and individual taxes that were combined. They</p> <p>16 forgot to add the factory that was also added. So there is</p> <p>17 something that needs, a question needs to be asked about</p> <p>18 that. Why if your design principles, rightly or wrongly,</p> <p>19 stated off from the start that you are going to find a way</p> <p>20 to deconcentrate power, you did exactly the opposite by</p> <p>21 having this extremely powerful unit. And in this model now</p> <p>22 also you would find the disappearance of the LBC. The LBC</p> <p>23 is no longer a segmented specialised unit, it is now as I</p> <p>24 said earlier, split across enforcement, stakeholder</p> <p>25 management, legal, BAIT and some parts in strategy. Even</p>
<p style="text-align: right;">Page 794</p> <p>1 DR CAROLISSEN: No, let me come to that.</p> <p>2 MR KAHLA: Okay. I just need to get this</p> <p>3 thing fast again.</p> <p>4 DR CAROLISSEN: Okay. So when, according</p> <p>5 to my mind working back, so when this examples were done</p> <p>6 you could see they started to ring certain things.</p> <p>7 [11:37] Now you take the red one, if the de-concentration</p> <p>8 of power is going to be the objective hen the final model</p> <p>9 actually reversed that principle because now in</p> <p>10 individuals, corporates and the service channels you have a</p> <p>11 division of 4500 people responsible for 80% of the revenue.</p> <p>12 Now Bain said that they don't have – and this is from their</p> <p>13 submission that I picked this, and I don't know whether I'm</p> <p>14 allowed to do it but I will do so in any case. From their</p> <p>15 submission they said they did not see this to be a problem</p> <p>16 because Bain is not concentrated but what they did was</p> <p>17 erroneously so only count the 700 and the 600 and say it's</p> <p>18 only 1300. But if you look at BAIT the service channels</p> <p>19 were included so it's actually a 4500, 5000 –</p> <p>20 MS STEINBERG: I probably just need to</p> <p>21 explain all these acronyms. So BAIT is the unit in SARS</p> <p>22 that comprises individual and business income tax. And so</p> <p>23 that's what's known as BAIT, which is sometimes confused</p> <p>24 with Bain. It all becomes a bit difficult. So perhaps you</p> <p>25 should just repeat the point you made.</p>	<p style="text-align: right;">Page 796</p> <p>1 in my division I drop some of the LBC people.</p> <p>2 MS STEINBERG: So the question that</p> <p>3 arises, I think, is this. No consultancy has the power to</p> <p>4 impose their will on their client, in this case the</p> <p>5 Commissioner. So I guess the question is if creating this</p> <p>6 concentrated point of power called BAIT did in fact fly in</p> <p>7 the face of their design principles, what should Bain have</p> <p>8 done at that point?</p> <p>9 DR CAROLISSEN: According to my mind they</p> <p>10 should have written to the Commissioner and said we have</p> <p>11 provided you with your options and we find that your final</p> <p>12 choice is a departure from the design principles which was</p> <p>13 agreed on upfront and therefore we will find a way to make</p> <p>14 sure that we will not be held accountable for the final</p> <p>15 model. It's almost like you consult a doctor and you don't</p> <p>16 believe the doctor, you go to another doctor and the doctor</p> <p>17 will say well, that was my prognosis. I think in any</p> <p>18 professional environment you have to find a way that you</p> <p>19 distance yourself from a decision that is contrary to what</p> <p>20 you recommend.</p> <p>21 COMMISSIONER: Let me just understand</p> <p>22 this though. Bain you say has put forward four proposals,</p> <p>23 the same principles, some small differences. And then you</p> <p>24 end up with a final model that is not any of those four.</p> <p>25 Where does the final model come from? Is it not a Bain</p>

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1 model or does this come from somewhere else?

2 DR CAROLISSEN: That's the million dollar

3 question because if I read the Bain documentation they say

4 that the Commissioner then, the exact wording is in here,

5 if somebody could just help me, but they said that when

6 they presented this to the Commissioner, he elected to

7 follow another model. They don't see too much of a problem

8 with that because BAIT, the SARS BAIT, not the Bain, SARS

9 BAIT is not overly concentrated. They actually said that

10 they don't see a problem. It's not overly concentrated

11 because there's only 1300 people in BAIT. When you count

12 it it's not.

13 COMMISSIONER: But I'm just saying who

14 designed the final model then?

15 DR CAROLISSEN: I won't be able to answer

16 that question, Judge, even if I speculate about that.

17 MR KAHLA: Was their approach in respect

18 of span of control driven so much by the number of people

19 up to the last person in the grouping rather than the span

20 of control in relation to the leader and the direct

21 reports?

22 DR CAROLISSEN: I know the span of

23 control was a big issue. You will also see in this

24 example. Where did they put the span of control? But the

25 span of control in one of the examples is 14 and one of the

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1 other ones is 11 and so on, so it varies. I think that's

2 why there was playing around with placing a Deputy

3 Commissioner at different levels, is to be able to manage

4 the span of control. You know it's quite difficult for us

5 to comment what, how we move from this to the final model

6 because we were only presented with the final model. We

7 were not aware of this until I was provided with this

8 documentation.

9 COMMISSIONER: When you say we, are you

10 talking about just your division or is this across SARS?

11 DR CAROLISSEN: Across, certainly my

12 level, the G level, ja, we didn't know about this. We were

13 presented with the final model.

14 MR KAHLA: Was that unusual?

15 DR CAROLISSEN: Well we didn't know that

16 there were options before that. We didn't know about these

17 options.

18 MR KAHLA: The reason I'm trying to

19 understand this is I suspect in every bit of work people do

20 there is normally preliminary work that's done and issues

21 found and raised around it and ultimately what gets

22 presented is what is thought to be the appropriate thing.

23 So I'm just trying to think, to understand, did something

24 come out unusual around what was presented, to the extent

25 that it met the principles, because I'm sure the principles

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1 would have been set out. These are the design principles.

2 This new option or this operating model option provides us

3 with the ability to meet those principles.

4 PROF KATZ: Doctor, can I rephrase a

5 little bit? I'm in the same space as Mr Kahla. To what

6 extent did that final one materially differ from the four

7 that were put?

8 DR CAROLISSEN: I'm going to show it.

9 I'm going to show it.

10 PROF KATZ: That's what we are -

11 DR CAROLISSEN: Just perhaps just moving

12 on, but – okay let me deal with it when I come to the final

13 model because we were all astounded when the final model

14 was presented. So just quickly, so Bain then is the red

15 encirclement, encircled – sorry Judge.

16 COMMISSIONER: BAIT.

17 DR CAROLISSEN: BAIT is the red

18 encircled, as we say in, when we lecture, we say we are

19 just checking whether the people are awake. Then the other

20 circled, the green one, that you will see is stakeholder

21 management, governance risk and office of the Commissioner.

22 That was also combined under one Chief Officer, keeping the

23 level 3 assignment. So all those questions, that Group

24 Executive is heading them up but then they assigned a Chief

25 Officer on top of that. And then important enough the

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1 enforcement – and I'll just quickly go through this – you

2 will see the enforcement is the bottom, is the blue, it's

3 about 3000 people. Now that has been historically in SARS

4 the enforcement is big. I still can't understand why it is

5 so big because if you look at our compliance model most of

6 our compliance should, most of our ordering should be

7 happening in the service environment while things are still

8 fresh and that only your real bad cases go through to the

9 enforcement stage where you start to hit people with a

10 hammer. If you really want to have the model balanced, but

11 that's always been an enigma to me. So this is the final

12 model. So when this model, and I think there might be

13 some, another version of this, the final model, which is

14 not the Bain options, when this was presented we were

15 surprised, first of all by the concentration of power in

16 BAIT –

17 COMMISSIONER: Sorry when you say this

18 was presented you're talking about the final?

19 DR CAROLISSEN: The final.

20 COMMISSIONER: But of course you haven't

21 seen these until these proceedings.

22 DR CAROLISSEN: No I haven't seen the

23 previous ones. This is the final one.

24 COMMISSIONER: No I understand that but

25 when the final was presented to you, there is no discussion

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1 with you and the GEs before this on what you thought the
 2 final model should look at, as I understand?
 3 DR CAROLISSEN: There was a mass
 4 consultation and said that we think this is the final one,
 5 do you have comments? But it was done in a –
 6 COMMISSIONER: That came after the final
 7 one had been prepared?
 8 DR CAROLISSEN: Ja. So it was, you know
 9 to an extent it was there. This is the final, what do you
 10 think about it? So a number of people raised the concern
 11 about the disappearance, complete fragmentation of the LBC,
 12 given the strength of its revenue generating, it's a third
 13 of the revenue. A number of us raised concern about the
 14 concentration of power in BAIT, the mixing of the factory
 15 and the specialised environment. And otherwise we thought
 16 this was the outcome of the Bain work, so this was it. I
 17 screamed blue murder about some of my functions has
 18 disappeared but we were told, well we were opened up the
 19 opportunity to complain and to comment and to make
 20 suggestions as to how to improve it, but then the next
 21 stage was to start to populate this.
 22 MS STEINBERG: So Bain are given a very
 23 hard time for this model which, well the most frequent word
 24 I use, I hear being used the verb is broke SARS, it broke
 25 the organisation. But in fact it wasn't their model. Well

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1 I think we'll have to clarify with them. It wasn't similar
 2 to the four they initially presented.
 3 DR CAROLISSEN: Ja look that discussion,
 4 that question must be asked to Bain. Say so how did you
 5 allow, or how did it happen or what was the dynamic that
 6 caused this departure from your original design principle?
 7 Because according to my mind this is a departure complete
 8 evisceration – and I keep on using this word but it's the
 9 most graphic word I can think of – of the I model, the I-
 10 SARS model, the segmentation model that we were beginning
 11 to implement, and the strategic journey that we were on.
 12 MS STEINBERG: As I understand it took
 13 you back many years in that you had very carefully
 14 separated out back office and automation within the back
 15 office from front office and then front office was
 16 segmented to deal with the different needs of different
 17 taxpayers. And it put them together again in the mix. Is
 18 that right?
 19 DR CAROLISSEN: That's – ja. It was
 20 careful planning that the processing centre and the factory
 21 moved towards the back end so that it can service the bulk
 22 processing needs of the entire organisation, and here
 23 including customs as well, so that that becomes your
 24 factory. In fact if you go to our Alberton branch you will
 25 see a factory environment in operation. Things get

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1 processed in high speed and there's quality management
 2 principles in place. It's like you would run a high tech
 3 factory and then whereas your specialised units then would
 4 then be upskilled to deal with specialised enquiries, tax
 5 schemes, tax scams, better service, improved turnaround
 6 times, things like that so that was –
 7 MS STEINBERG: But this put the two back
 8 together again to some extent.
 9 DR CAROLISSEN: To some extent and it
 10 didn't make logic sense, to me at least, it didn't make
 11 sense to me and to a lot of other people.
 12 PROF KATZ: So Doctor, forgive me getting
 13 back to the question the two of us posed. To what extent
 14 is this final a material deviation from the design
 15 principles in the four variations that were put up?
 16 DR CAROLISSEN: So first of all, let me
 17 get, first of all the design principle of over-
 18 concentration of power was reversed. That's probably the
 19 most important one. I'm just trying to find the design
 20 principles, then I want to –
 21 MS STEINBERG: I'd like to comment on
 22 that while you're looking.
 23 DR CAROLISSEN: Ja.
 24 MS STEINBERG: You point out that in fact
 25 there's a miscounting of heads in BAIT, that if you include

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1 the factory there are an enormous number of, enormous
 2 percentage of SARS employees are there. But perhaps what's
 3 more significant, and you can correct me if I'm wrong, is
 4 that because large business is included in BAIT, whereas it
 5 was outside of the concentrated hub in the last model, it's
 6 a far more powerful piece of SARS than the previous
 7 concentration because far more revenue is actually
 8 collected in BAIT.
 9 DR CAROLISSEN: 80%.
 10 MS STEINBERG: Than was ever collected by
 11 the Chief Operating Officer in the old model.
 12 DR CAROLISSEN: And it's not just a, that
 13 is one indicator power, the amount of revenue.
 14 MS STEINBERG: Ja.
 15 DR CAROLISSEN: But remember you deal
 16 almost with the forefront of the tax system. Remember the
 17 LBC dealt with the OECD, with the United Nations, with
 18 those international fora, so they're at the front face of
 19 tax administration. It is an extremely powerful position.
 20 And to my mind from that perspective alone, never mind the
 21 revenue, that's an over-concentration of power.
 22 MS STEINBERG: So you're saying that in
 23 fact the final operating model you see more of a
 24 concentration of power than you did in the model it
 25 replaced?

<p style="text-align: right;">Page 805</p> <p>1 DR CAROLISSEN: I wouldn't say that 2 necessarily because the previous one also had except for 3 the large business sent out, if you discard that. It also 4 had a wide power base, if I can put it that way. But the 5 LBC was an extremely powerful body in the sense that it 6 led, was at the forefront of tax evasion, illicit flow of 7 funds, BEBS, countering of tax schemes and all this, so 8 although it was not number wise so big, it was outside but 9 it was extremely powerful. By pulling it into this big 10 factory environment you have now extreme power plus 11 numbers.</p> <p>12 PROF KATZ: Sorry, Doctor if I could just 13 ask. Forgive me Carol, but doesn't the commission need to 14 know (1) what was the model before Bain was brought in? 15 How much does the Bain suggestions deviate from that? What 16 was the final Commissioner? How much does that deviate 17 from the original, the pre-Bain? How much does it deviate 18 from the Bain? Don't we need to get a comparison of those 19 three to see really what went on? What was this money 20 spent for? What was achieved? What was constructed? What 21 was broken? That exercise really needs to be done.</p> <p>22 DR CAROLISSEN: Exactly, and I thought of 23 including the organogram just prior to 2014 but at some 24 point I had to cut off. But the question you ask is 25 completely relevant. What existed? What was proposed?</p>	<p style="text-align: right;">Page 807</p> <p>1 from below the structure the ways of working, the way 2 everything would work, would it render it impossible to 3 attain what was intended to be attained their efficiencies 4 or so, and also because I'm just trying to understand to 5 what extent there's a lot of noise relating to shifts in 6 concentration of power. Perhaps maybe I'm informed more by 7 the statement of the legendary Italian statesman that power 8 burdens only those who don't possess it. So I'm wondering 9 whether, how much of this is really just a burden of those 10 who didn't possess the power?</p> <p>11 DR CAROLISSEN: So my approach in 12 preparing for this presentation was to take, to look at the 13 strategic journey and say did we depart from that journey? 14 And I'm saying yes we did. What I was quite surprised when 15 I saw the Bain options and what finally transpired. So 16 that level of deep analysis that Professor Katz has 17 suggested needs to happen, and the questions that I can't 18 answer as to why things were changed and the manner that 19 they were changed must be asked perhaps there must be a 20 logic, I can't see the logic but perhaps there might be a 21 logic.</p> <p>22 [11:57] PROF KATZ: Can I then ask one other, you 23 said and I think Bain themselves said that one of their 24 biggest rationales for their appointment was to reduce the 25 gap. You say that and their own documents say that. Two</p>
<p style="text-align: right;">Page 806</p> <p>1 What was adopted and what was the impact? 2 PROF KATZ: And on each one. So that 3 tells you what was the exercise all about? And as I say, 4 I'm being repetitive but unless one takes that pre-middle 5 end, what were the deviations?</p> <p>6 MS STEINBERG: And then with respect 7 there's one more step. What was implemented? Because I 8 think Bain will tell us that there's actually a gap between 9 this final operating model and then what happened. So we 10 need to look at that too.</p> <p>11 PROF KATZ: Would the Commissioner say, 12 for example, that the reason, if there is a material 13 deviation from final, from the one he gave that they didn't 14 implement his instructions? They gave him something other 15 than what he wanted. We need to get all of that before we 16 can really interrogate the questions.</p> <p>17 DR CAROLISSEN: I agree.</p> <p>18 MR KAHLA: My own struggle with this is 19 that I don't know the extent to which the concentration of 20 power focus was assessed as being sort of a sacrosanct 21 principle, because you as indicated, you simply shifted the 22 concentration of power and I'm not so sure whether that in 23 itself is a problem. I'm trying to understand. Of course 24 we simply are looking now the structure emerging from the 25 operating model. I'm looking, I would want to understand</p>	<p style="text-align: right;">Page 808</p> <p>1 questions, did their methodology, how they went about it 2 direct itself towards doing that, A? And B did their 3 reports direct itself to that?</p> <p>4 DR CAROLISSEN: So Professor Katz, what I 5 will do is I will point out now that we have the model and 6 it's been operating for two years, remember I gave a 7 scenario what SARS looked like before the model, hopefully 8 I'll be able to answer those questions when I say – let's 9 say now, let's look at some of the indicators and say is 10 things better, are they the same, have they regressed. I 11 can tell you now they've regressed, but I'll deal with that 12 in hopefully a bit more detail in one minute.</p> <p>13 COMMISSIONER: Before you do that just 14 picking up from what my colleague says, you know we talk 15 about a concentration of power, but my question is power 16 over what. It may differ, you might have a concentration 17 of power over the staff as it were in one time and later 18 concentration of power over something else. Now as I look 19 at that model there this is an individual tax, it covers 20 everything except customs. Is that right? So now you've 21 got a huge concentration of power over taxpayers.</p> <p>22 DR CAROLISSEN: The entire tax base.</p> <p>23 COMMISSIONER: And that wasn't the case 24 before. A lot of the, especially, I mean businesses is 25 where the big tax comes from. The large business centre</p>

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1 had the control over that and the operating officer had
 2 control over individual tax and perhaps smaller businesses
 3 etcetera. It may have been that he had a lot of people
 4 under him, HR and whatever the case may be. These are
 5 services, but the power has changed dramatically. Now the
 6 chief operating officer of BAIT has got power over every
 7 taxpayer other than excise and customs, is that right?
 8 DR CAROLISSEN: That's correct yes. I
 9 think you put it very eloquently, much more than what I –
 10 COMMISSIONER: Thank you very much.
 11 MR KAHLA: I suppose the question that
 12 follows from that, relative to international benchmarks,
 13 was there anything wrong with that concentration?
 14 DR CAROLISSEN: Look like I said earlier
 15 to my mind SARS is a big and complex organisation and
 16 invariably some people will have lots of power under
 17 Commission. The Commissioner himself has got all the power
 18 and he can decide how he wants to devolve it. And you as
 19 the Commissioner makes the call what power you're going to
 20 give to who. So normally, you know, in such a complex
 21 organisation you would have some deputy commissioners and
 22 you would say look I'm going to make you in charge of that.
 23 All I'm saying here is that I don't have a problem with
 24 power, I have a problem with when you have a design
 25 principle and then you counter that design principle

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1 because then you must say why did I put that design
 2 principle in place. So the power to me is not necessarily
 3 the big arguing point.
 4 PROF KATZ: And with respect, you can
 5 have power, but there must be checks and balances to deal
 6 with the exercise of that power. So per se the position of
 7 power isn't that problematic because that's used to direct
 8 an organisation. But where you need your checks and
 9 balances is how that power is exercised, governance
 10 principles.
 11 MS STEINBERG: Mr Kahla, just to add to
 12 the answer we've already heard, practically every witness
 13 I've spoken to remembers two days. The one is when this
 14 model was unveiled and the other is the day you spoke about
 15 when people were either in or out. Now the day that it was
 16 unveiled there were three big justifications given for
 17 turning SARS on its head. One was the tax gap and the
 18 other was the over-concentration of power linked to the
 19 third which was to improved governance and accountability.
 20 So that was the justification for rather than continuing
 21 along the evolutionary path that the organisation was on to
 22 make more drastic changes. So the question is not is
 23 concentration of power good or bad as much as the fact that
 24 it was a rationale for changing, for radical change, but
 25 you end up with perhaps a greater concentration of power.

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1 DR CAROLISSEN: So previous asked to me
 2 about violation or no violation of some of the design
 3 principles and I've looked at the design – I've got the
 4 design principles open here. So it's to balance structures
 5 clustered together, similar functions and increased focus
 6 on governance, simplify structures, to minimise complexity,
 7 fragmentation and duplication and focus on high value
 8 opportunities. And collect all taxes due by focusing on
 9 untapped collection potential which will be the tax gap,
 10 increase focus on customs and excise, minimal disruptions.
 11 So I want to deal with some other things that
 12 didn't come out yet. So if you look at the structure you
 13 will see, so first of all I already spoke about some of the
 14 fragmentation of vital functions. Okay and my self-
 15 interest the revenue embellishment function which I
 16 described earlier was totally fragmented, okay and much
 17 less efficient than it used to be. So that's out of the
 18 way, so now I can focus onto being a bit more objective.
 19 So there is in each – there was also a function
 20 which was left in tatters which was called the compliance
 21 division. Two legs of our strategic objectives rest on
 22 compliance, increase customs compliance and increased tax
 23 compliance. That unit trapped compliance and did all the
 24 research on the compliance and they were responsible for
 25 the compliance strategy of SARS. That unit has

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1 disappeared, some of them is in my area, some of them are
 2 in BAIT, some of them – they're all over the place. And so
 3 when we had to update our compliance strategy there was
 4 nobody to do it and we are now putting together in my area
 5 a compliance strategy. So that to me was also a
 6 destruction of – and we could go to many other divisions,
 7 I'm just speaking from my vantage point.
 8 MS STEINBERG: And we're going to hear
 9 about compliance this afternoon, so we don't need to dwell
 10 on it.
 11 DR CAROLISSEN: But what's interesting it
 12 was the minimisation of duplication, but you'll find, in
 13 four areas you'll find strategy. You'll find strategy in
 14 of course the strategy division, let me just locate it. Ja
 15 CO Strategy Communications, you'll find strategy in BAIT,
 16 you'll find strategy in customs and you'll find strategy in
 17 enforcement. To my mind these four strategic divisions are
 18 not working together and they've never met as far as I
 19 know. It could be that they have met, but we don't see the
 20 impact of them co-operating and collaborating. And that to
 21 me is each empire now is old strategy unit and why that
 22 happened and how it came about I don't understand, I can't
 23 answer. So somebody has got to answer that question, why
 24 you have expressed to the design principles now a
 25 proliferation of such functions.

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1 MS STEINBERG: When the design principle
 2 is to minimise duplication.
 3 COMMISSIONER: So those are the design
 4 principles in the four –
 5 MS STEINBERG: Well before the four
 6 there's a set of design principles and the process is
 7 whatever model we come out with must embody these design
 8 principles and a very important design principle is
 9 minimise duplication.
 10 PROF KATZ: Sorry can I just ask one, if
 11 I may, I may have missed it? In the four of Bain, those
 12 are four variants of the same design principles, we've
 13 spoken about what was in them. Is there anything material
 14 that was absent from them?
 15 DR CAROLISSEN: Just off the cuff I don't
 16 see anything missing, I see everything is in there, but
 17 it's just been scrambled.
 18 COMMISSIONER: Been scrambled?
 19 DR CAROLISSEN: Scrambled.
 20 COMMISSIONER: By scrambled you mean it's
 21 been split apart?
 22 DR CAROLISSEN: Ja. Some is fragmented,
 23 some is duplicated, some is missing –
 24 COMMISSIONER: Okay, yes.
 25 DR CAROLISSEN: So overlap or under lap

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1 is clearly evident. The other important one also and I
 2 just thought at the back of my head is one of the upfront
 3 principles, I don't see it in the design principles, the
 4 upfront principles there would be no job losses. And a lot
 5 of the people that were participating, we were operating
 6 under that realm that there won't be any job losses. And
 7 to some extent some people still expected that they would
 8 be retained in their current job even if they were to be
 9 phased out because of retirement or skills transfer that
 10 need to happen. So the sudden loss of people from the job
 11 was actually a big shock to the system. It caused absolute
 12 – it was a body blow, if you could put it that way and that
 13 was not a design principle, but it was upfront stated as
 14 one of the philosophies of this redesigned (inaudible).
 15 And so a lot of people will tell you and I'm speaking on
 16 other people's behalf, that that was actually one of the
 17 most telling disappointments that they had to face.
 18 COMMISSIONER: Just explain that to me
 19 again, I was a bit slow in picking up what it is. What was
 20 the body blow?
 21 DR CAROLISSEN: Upfront there will be no
 22 job losses or diminishing of status.
 23 COMMISSIONER: Okay.
 24 DR CAROLISSEN: And then when some people
 25 that were heading up units were finding themselves now

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1 being called specialists.
 2 COMMISSIONER: Can I just understand that
 3 though, I mean they know –it's been said to me well under
 4 the new operating model there were different posts created
 5 with different responsibilities and someone had to lose
 6 their job somewhere along the way. Well A complains that
 7 he lost his job but B retained his job. Now what would
 8 happen if we switched them the other way around? But let
 9 me just finish that and say that my response to when I
 10 heard that is have you got so many skills in SARS that you
 11 can put people in dead end jobs when they've got skills?
 12 Now what do you say to those two propositions?
 13 DR CAROLISSEN: So first of all when this
 14 model came out most people could see their jobs in the
 15 structure although it's in a different format and stuff.
 16 There were some people whose jobs had disappeared that we
 17 accept. But there were also new jobs created and I'm
 18 speaking high level here, so I think somebody must do the
 19 counting. The number of jobs remained although there was
 20 no vacancies and stuff, so a lot of people had the
 21 expectation, in fact that's what happened, people were
 22 invited to apply for these jobs and some people even
 23 applied for 14 jobs with the expectation, look I've got
 24 skills, I've got 25 years in SARS. It really shouldn't be
 25 a problem to place me and so you know there was no real

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1 angst although we had – that people would be losing because
 2 the commitment that people would retain their jobs. So I
 3 don't take that argument, there were insufficient vacancies
 4 for people to be applied, those vacancies were filled by
 5 other people through promotions and from the outside.
 6 COMMISSIONER: Sorry, that's what I want
 7 to know. Those skilled people that ended up outside as it
 8 were the fold, were replaced by who, is it people lower
 9 down the line, is it outsiders? Who was it?
 10 DR CAROLISSEN: It was a combination of
 11 people down the line and outside people, bringing outside
 12 people into the system. I don't have the exact number, but
 13 that was in essence –
 14 COMMISSIONER: And the last thing if I
 15 may just ask you. We've heard about all these principles,
 16 specialists, domain specialists, we even heard of a generic
 17 specialist. But these were not in the structure, as I
 18 understand it these were simply ad hoc created positions
 19 for people and someone said to me what happened actually is
 20 that you found yourself out of the structure. You weren't
 21 appointed to anything and you'd be given a contract and
 22 said well here we are here's a contract, you are now a
 23 generic specialist.
 24 DR CAROLISSEN: Ja.
 25 COMMISSIONER: And if you sign the

<p style="text-align: right;">Page 817</p> <p>1 contract there you are, you're a generic specialist, you 2 don't exist on the organogram, is that right? 3 DR CAROLISSEN: That's correct yes. 4 COMMISSIONER: So these are all 5 supernumerary to the organogram. 6 DR CAROLISSEN: Supernumerary to the 7 organogram and in my division I've absorbed a few of them 8 and some of them I absorbed in BAIT, but they were not on 9 the organogram they were now specialists. 10 COMMISSIONER: Some of these specialists 11 actually do specialised jobs and they are legitimately 12 created, a lot of them are just supernumerary posts to 13 avoid retrenchment as it were. And we heard the lady who 14 reads newspapers and we heard the lady as well who said I'm 15 not going to sign this contract, what is the job content. 16 And they said well they couldn't tell her what the job 17 content was because there wasn't any job content. That's 18 what was happening as I understand it. 19 DR CAROLISSEN: Ja so in my particular 20 area where I can speak for is that the specialists, because 21 I'm a research intensive, I find them extremely useful 22 because they brought into my area the deep organisational 23 skills and skills and tax administration, customs 24 administration. So they're working on meaningful projects, 25 but I had to, you know, I had to make their life</p>	<p style="text-align: right;">Page 819</p> <p>1 to do a Master's in tax to meaningfully participate. And 2 anybody that joined SARS will tell you that it's an 3 extremely complex and difficult environment. So anybody 4 resigning was a loss to the organisation, intellectual – 5 the organisation's intellectual capacity and institutional 6 memory. So there can be no doubt that with that exodus of 7 skills that SARS had lost its skills set, or part of its 8 skills set. There's a lot of good, I don't want to 9 diminish it, there's still a lot of good people in SARS 10 that work themselves to a standstill to make sure that 11 under their difficult conditions they work hard. But every 12 person that leaves here leaves a void and in some cases 13 especially with repopulation of this model and I think 14 that's what the Commission must apply itself to, who 15 repopulated this model and what were their skill sets. 16 Because to my mind there's invariably – there would be a 17 big gap. You don't pick up the skills overnight. 18 COMMISSIONER: Well let me put it this 19 way. As I understand it all the chief operating officers 20 who came in in 15 and 16, that is your Exco, all except one 21 had never worked in a tax administration. Is that right? 22 DR CAROLISSEN: That's correct yes. 23 PROF KATZ: So cut across everything now, 24 any design principle or any implementation of it should be 25 directed to retaining these very valuable skills. Is that</p>
<p style="text-align: right;">Page 818</p> <p>1 meaningful. 2 MR KAHLA: I need some clarification 3 because I'm struggling to understand the upfront 4 commitment. I can make sense with the commitment that 5 there'd be no job losses, but I struggle with the 6 commitment that was made, if at all it was made, that there 7 would be no diminishing in status in respect of all the 8 individuals. 9 DR CAROLISSEN: That was my recollection 10 and it must be validated, but my recollection is that 11 nobody feared for his status and nobody feared for his job. 12 PROF KATZ: Sorry Doctor, following the 13 judge's question, one of the things that is said frequently 14 by Adv Steinburg is that the loss of skills in SARS was one 15 the important factor in reduced tax recoveries. How would 16 you react to that? 17 DR CAROLISSEN: Let me go back. So there 18 was initial loss of skills towards the end of 2014 19 beginning 2015 when this new operating model was being 20 contemplated and being investigated. And I think also with 21 the stopping of the modernisation a lot of people that were 22 in that space decided to pack up and go. So that was 23 certainly a big loss because I can tell you from a personal 24 experience, with all my qualifications and experience it 25 took me two years to understand this business. And I had</p>	<p style="text-align: right;">Page 820</p> <p>1 a fair statement to make? 2 DR CAROLISSEN: Absolutely fair. 3 Absolutely – 4 PROF KATZ: And it doesn't seem that was 5 the case. 6 DR CAROLISSEN: So in the opening remarks 7 I say - in fact it probably was a bit too high level. I 8 said in my opening remarks that any contemplation of a 9 change in the operating model must take into account or 10 must counter diminished capacity of us to execute our 11 mandate. Perhaps I said it too high level, but that's 12 exactly what I meant. 13 COMMISSIONER: Well Bain would say to 14 you, as I think, well that's fine we developed the model, 15 we didn't decide who should have the jobs and I think that 16 would be a fair comment wouldn't it? 17 DR CAROLISSEN: I wouldn't let them off 18 so easily. If I – 19 COMMISSIONER: Whether I let them off is 20 not the question, I'm not letting up or not, but what do 21 you say to that because that is I've heard? I mean here's 22 the operating model, here's the theory now you go about it 23 and fill the positions if you want to put someone in CEO 24 business and whatever. It's got nothing to do with me, why 25 do you say that that letting them off the hook?</p>

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1 DR CAROLISSEN: No I'm not saying, I said
 2 I would not let them off.
 3 COMMISSIONER: No but tell me what's
 4 wrong with that answer.
 5 DR CAROLISSEN: Because if you write a
 6 national or acclaimed and established consulting group
 7 that's not even a question that you must figure out because
 8 the ultimate success of your recommendations rests squarely
 9 and heavily on the capacity that you put into the exercise.
 10 So if I were to be them I would make, I don't want to use
 11 rude words, but I would make very sure that I leave an
 12 organisation that is premised and leveraged to be
 13 successful. I don't see them –
 14 COMMISSIONER: Well let me put another
 15 one to you. There you've just told us and rightly so,
 16 there were lots of skilled people here. If you had taken
 17 this model and used all your best skilled people in there
 18 would you have a complaint?
 19 DR CAROLISSEN: Look I would still be
 20 complaining because this model is contrary to the design –
 21 the strategic journey that we have moved, so in fact even
 22 operating in this model today we have to find work arounds.
 23 COMMISSIONER: That's what I - I
 24 understand that, but the point is if Bain comes in and
 25 there are lots of skilled people here who could have filled

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1 these positions. It might not still, as you say there
 2 might still be a problem with the operating model, but as
 3 far as the positions are concerned they could all have been
 4 retained.
 5 DR CAROLISSEN: Exactly.
 6 COMMISSIONER: They wouldn't have lost
 7 all these skills even with the new operating model.
 8 PROF KATZ: Is that so, with respect, Dr?
 9 [12:17] There's two dimensions of performance, skills and
 10 experience.
 11 DR CAROLISSEN: Ja.
 12 PROF KATZ: So you might have skills but
 13 if you're taken out of your area of experience you're going
 14 to diminish the capacity of the organisation.
 15 DR CAROLISSEN: So I'm using them
 16 together.
 17 COMMISSIONER: Well, I was using them
 18 together. He's just being pedantic.
 19 MS STEINBERG: No, with respect he's not
 20 because we will hear from people who were taken right out
 21 of their area of skill and put somewhere else.
 22 COMMISSIONER: No, I understand but when
 23 I talk about skills I mean appropriate skills for the
 24 particular job which includes experience. Anyway, we
 25 needn't debate that. We'll hear about it. Thank you.

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1 MS STEINBERG: But what I understand just
 2 to try and summarise is that the operating model itself
 3 even if you had the best people in the world in it is
 4 flawed.
 5 COMMISSIONER: Sorry?
 6 MS STEINBERG: Is flawed, is flawed.
 7 COMMISSIONER: Yes.
 8 MS STEINBERG: But there's now a double
 9 body blow because you have an operating model that breaks
 10 the evolution, that puts all sorts of design flaws in and
 11 then you populate it.
 12 COMMISSIONER: Yes.
 13 MS STEINBERG: With people who don't have
 14 the experience in many cases. Is that correct?
 15 MR KAHLA: But is it flawed arising from
 16 the design or is it flawed because there was no effective
 17 management of change taking you to that operating model?
 18 Our people have worked around in life from different,
 19 changing operating models but of course it also matters how
 20 they shifted into the new operating model and I'm trying to
 21 understand is this essentially a problem of the design of
 22 the operating model or the absence of effective management
 23 of change.
 24 DR CAROLISSEN: No, it's the design. I
 25 mean, the design came out of the four options that Bain put

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1 on the table. To move from that to a new one you surely
 2 must have an analytical phase where you say, look, I don't
 3 agree with this and then you can't, I mean there must be a
 4 plan. You don't build a house without a plan. So the
 5 design is not built and founded in deep-seated analysis of
 6 the status quo, the capacity that you have available, the
 7 people that you require. The design is - I mean, somebody
 8 must ask this question, why do we move from here to there
 9 and what was the, what motivated it.
 10 PROF KATZ: That was my one, two, three.
 11 DR CAROLISSEN: Ja, I can't answer that
 12 question but you know, that's it. So one of the other
 13 things -
 14 MS STEINBERG: Judge, in the course of
 15 this week because of the fear factor that you mentioned
 16 there - I have many, many affidavits and submissions where
 17 people want to remain anonymous and I propose to feed them
 18 in in order to make sure the evidence is before you. I
 19 think one very pertinent example here is somebody who is
 20 very senior in processes and the back office who found
 21 herself as one of the supernumeraries but she looked around
 22 at the operating model and saw that certain crucial
 23 functions had simply been forgotten about.
 24 Now, one of them you mentioned earlier and that's
 25 third party data. Now, you mentioned it in the context of

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1 it's an absolute necessity for the automation process
 2 because you prepopulate people's forms using third data,
 3 third party data. But in addition it's a critical tool in
 4 compliance because if you get information from the banks
 5 and the insurance companies you can see whether someone's
 6 tax return honestly reflects their assets or not.
 7 Now, I was told, and I have not seen any evidence
 8 to contradict that, that the unit responsible for third
 9 party information was simply forgotten about and left off
 10 the organogram. It was brought to the steering committee's
 11 attention. It was never dealt with. So what one of the
 12 supernumeraries did is something in fact she wasn't allowed
 13 to do, is she quietly under the radar spoke to the people
 14 who had done it before to make sure that it carried on and
 15 it didn't just fall off the map.
 16 Now, that is a design problem and it's also the
 17 problem of this highly experienced individual who becomes a
 18 supernumerary who then has to pretend that she's a
 19 supernumerary when she's trying to do some of her old job
 20 to keep the organisation going. Now, that is one story
 21 which I have as testimony but there are many like that and
 22 I think that's illustrative of what you're talking about.
 23 DR CAROLISSEN: So one thing which I
 24 forgot when I looked at the consulting process, I found it
 25 strange that the head of customs were not consulted. I

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1 found it strange that the head of the modernisation unit
 2 were not consulted. So those would be - if they had done
 3 that they would probably have discovered that there had
 4 been work done prior to this operating model, some of these
 5 diagnostics that I referred to earlier.
 6 So I just thought that I - you triggered my
 7 memory now with this comment. But what you describe is
 8 typical of the supernumerary's responses to that. Nobody
 9 wants to come to work and sit around, some people might
 10 want to, and do nothing and so they find themselves where
 11 they identify gaps and inserted themselves there and filled
 12 those gaps to provide the necessary workaround that
 13 sometimes had to be done for us to continue to collect
 14 revenue in the manner that we did. I'm actually quite
 15 surprised that our revenue performance is as high as it
 16 still was given all of these circumstances.
 17 MS STEINBERG: Well, if I may say to your
 18 credit that many witnesses spoke to the fact that you
 19 identified supernumeraries whose skills were critical to
 20 SARS and managed to draw them into your sphere and make
 21 sure that they had work to do. Otherwise they wouldn't
 22 have had work to do and they're very, very skilled and
 23 experienced individuals.
 24 PROF KATZ: Doctor, could I just answer -
 25 COMMISSIONER: He's nodding. That's

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1 correct.
 2 DR CAROLISSEN: That's correct, yes.
 3 PROF KATZ: Just so that I see that I
 4 understand forget whether the final model that was adopted
 5 was based on the Bains or not. Just taking before Bains
 6 the design principles embodied in that. I think I missed -
 7 what did you say? What's your view of those four? Assume
 8 one of them was implemented.
 9 DR CAROLISSEN: To my mind it could've
 10 worked but to my mind also it was nothing new because that
 11 has been coming on since 2008. That was just - and in fact
 12 in my submission I write the words, I say it was a
 13 confirmation of the journey that we started in 2008. So if
 14 they, if Bain had consulted and asked where do you guys
 15 come from we would've probably saved a lot of time because
 16 they basically came to the same conclusion that if you have
 17 these different - and from the international benchmarking
 18 these are the design principles for an optimum model. They
 19 listed that and I agreed with that and they say that based
 20 on this we select the best out of each feature and we
 21 combine it and then they ended up with exactly the 2008
 22 journey that we started on so -
 23 PROF KATZ: So if you were asked did Bain
 24 make an important contribution to the tax reform process?
 25 DR CAROLISSEN: I don't think they

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1 discovered anything if any new that we didn't know about
 2 because even on the high net worth the big stories made out
 3 of the new extended reach of high net worth of additional
 4 people that were not in that, we knew about that. My
 5 research unit I think gave it to them. We knew about that.
 6 But we chose to limit ourselves initially to a specific set
 7 of high net worth individuals on our register. So in fact
 8 I can say this, the analysis that they put forward from the
 9 tax was done by my unit. And I led that research because
 10 it's stuff that we were busy with in any event. So I don't
 11 want to diminish it too much but I would be hard pressed to
 12 find anything that is a wow moment for me. But that's
 13 being a little bit - it borders on the arrogant side but I
 14 mean I really, really need to figure out what is - but
 15 that's one of the things that we didn't know.
 16 MS STEINBERG: Well, again there seems to
 17 be some consensus that there was nothing new in the
 18 diagnostic and a lot of it was absolutely correct. The
 19 question was, was that diagnostic a justification for such
 20 radical change.
 21 DR CAROLISSEN: Not to this - remember
 22 the diagnostic did not identify this final model.
 23 MS STEINBERG: Correct.
 24 MR KAHLA: But I suppose the diagnostic
 25 would more have been focused around the pinpoints. Where

<p style="text-align: right;">Page 829</p> <p>1 are the issues and what needs to be done? And for example 2 you've dealt with the issue of the tax gap would've arisen 3 from the diagnostic. What was to be done to solve the 4 issues arising from the diagnostic I suppose would end up 5 reflecting in the new operating model to the extent that of 6 course it was focused on that. And you're saying that 7 didn't happen.</p> <p>8 DR CAROLISSEN: So my training and 9 experience about development of operating models would go 10 as follows. An operating model don't get changed in 11 midstream or for the whims of it. Structure follows 12 strategy. So if you, if there are major shifts in your 13 strategy that should then begin to say I must change my 14 strategy. Now, one could say that SARS over the years had 15 changed its structure, well, on a regular basis but that 16 was part of a strategic journey which we all understood.</p> <p>17 So it wasn't wilful or willy-nilly changes of 18 structure. So that's why to my mind if people talk about 19 structural change and say what is change in the 20 environment, why do you have to adjust. Now like I said 21 the tax gap discovery and the high net worth discovery 22 those things were not - those were part and parcel if you 23 look at a detailed study of all the documents, remember I 24 just gave you a few of these. You will see that these 25 conversations were held throughout, certainly throughout my</p>	<p style="text-align: right;">Page 831</p> <p>1 from the design principles - 2 COMMISSIONER: The design principles 3 incorporated in SARS' original strategy and the design 4 principles in their four versions as it were.</p> <p>5 DR CAROLISSEN: The design principles 6 which they put upfront and say these are the principles.</p> <p>7 COMMISSIONER: The real question then is 8 why do you make such a change after a diagnostic and 9 proposals that barely reflect what's going on anyway. Why 10 do you, what is it that prompted the change to the final 11 one? There's no apparent one to you. There's no - you 12 can't think of one that is apparent to you. Is that what 13 you're saying?</p> <p>14 DR CAROLISSEN: It doesn't make sense.</p> <p>15 COMMISSIONER: No, I understand.</p> <p>16 DR CAROLISSEN: There's no analytical 17 base or analysis.</p> <p>18 PROF KATZ: Sorry, Doctor, would that 19 change be reflected in minutes of Exco? Would there be 20 discussions there which analysed the four and then came out 21 with that final? Where would one find the answer?</p> <p>22 DR CAROLISSEN: Ja, so I would have to 23 guess because at that stage I was not on Exco. I would 24 imagine that there must have been some form of discussion. 25 There must have been some form of the design team. But</p>
<p style="text-align: right;">Page 830</p> <p>1 12 years at SARS, the issue of high net worth, the issue of 2 the LBC, the issue of BEBS, all of those things. So there 3 must be strategic reasons or a shift in the strategy for 4 you to have drastic structural changes. If you have a 5 structural change it must be along the path of your chosen 6 strategic journey and the strategy is not stagnant or 7 static. And to my mind that is how you should be running a 8 business if you run it very sensibly.</p> <p>9 COMMISSIONER: Doctor, may I just get 10 clarity on this? I'm just thinking about what Professor 11 Katz raised. As I understand what you're saying is if Bain 12 had come to you with their diagnostic and their four 13 proposals, put them to you, your only real criticism, there 14 might be some minor criticism, your only real criticism 15 would be, well, so what, we know this, why are we paying 16 you for it. But you would've said, ja, that's sort of 17 okay. You've got no great difficulties with that. As I 18 say your criticism would be, you know, I don't need Bain to 19 come and tell me that.</p> <p>20 DR CAROLISSEN: Ja, we knew this.</p> <p>21 COMMISSIONER: But your, but what then 22 you get presented with is an operating model that is so 23 fundamentally different and that's where your real 24 complaint is.</p> <p>25 DR CAROLISSEN: Well, actually departs</p>	<p style="text-align: right;">Page 832</p> <p>1 there should be people in SARS that should be able to 2 answer that question.</p> <p>3 COMMISSIONER: Well, that's the problem. 4 There are I'm sure people in SARS who are able to answer 5 that. The question is whether they're going to tell me and 6 my colleagues. Anyway, that's what I raised right at the 7 beginning and I'll tell you and I think counsel there will 8 bear this out, it is a major hindrance to this commission 9 that one cannot, that people do not - they feel compromised 10 by talking to us, that they will pay a price in the future.</p> <p>11 And it is a major hindrance to the conduct of 12 this commission. And I will tell you quite frankly that we 13 have discussed, well, how do we go forward and I fear that 14 one's going to have to go into more and more in camera 15 anonymous hearings which would be a very unfortunate way to 16 go but Professor Katz raises the question. Where are we 17 going to find it? I believe that we, that it an easily be 18 found if people were willing to tell us. What is the time, 19 Ms Steinberg? Is it -</p> <p>20 MS STEINBERG: It's half past 12.</p> <p>21 COMMISSIONER: What time do you want to 22 go on till?</p> <p>23 MS STEINBERG: Well, I think we should 24 let Dr Carolissen wrap up.</p> <p>25 DR CAROLISSEN: Ja, sure.</p>

<p style="text-align: right;">Page 833</p> <p>1 MS MASILO: I just need to ask one 2 question, Doctor. With the level of fear and, you know, 3 and distrust that's been created in the organisation when 4 you speak to your colleagues who were either placed in the 5 new positions or not, who are highly skilled and 6 experienced, why are they still at SARS? Is it because of 7 the belief in the higher purpose and that maybe things will 8 change and they'll be utilised again or because they fear 9 that they cannot get employment outside of SARS? 10 DR CAROLISSEN: Look, there are a number 11 of answers to that. The higher purpose, maintaining SARS 12 because SARS is a national asset. If we all leave SARS 13 South Africa will be in deep trouble. So there is this 14 protection of the legacy. We were once a good 15 organisation. The organisation will need people to refocus 16 itself and rebuild itself. There are people that say that, 17 you know, this is - we're going through winter. Spring is 18 around the corner. Things are starting to look up and we, 19 you know, and then of course also, and there's no doubt 20 about it in my mind because it happened to me, the job 21 market is not as open to SARS people as it used to be 22 because there is always the suspicion were you not part of 23 some sinister complot, were you not part of some - you 24 know? So it's not that easy and so people stay for 25 different reasons. I know why I'm staying or why I stayed</p>	<p style="text-align: right;">Page 835</p> <p>1 So that promise didn't come through or didn't 2 fulfil itself. Compliance with taxpayers continued to 3 slide. Taxes such as Pay as you Earn and VAT which are 4 collected on behalf of SARS money, it's agency money, 5 especially worrying. The number of returns that are being 6 filed for Pay as you Earn has slipped from six, sorry, the 7 number of returns not filed for Pay as you Earn has slipped 8 from 16.1 in 2008 and 9 to 31% in 2017/18. 9 PROF KATZ: Sorry, Doctor, the agency 10 money that doesn't come forward, that's a worry because 11 that means that the corporates - 12 DR CAROLISSEN: Are withholding it. 13 PROF KATZ: Aren't paying it over. 14 DR CAROLISSEN: Ja, they're using the 15 money to fund their cash flow. There's a double whammy. 16 Because if you as the employee of that entity then file 17 your return and a refund is due we pay your refund on the 18 taxes that we have not received and we can't withhold that 19 because it's not the employee's fault. 20 PROF KATZ: But then the corporates are 21 in default. 22 DR CAROLISSEN: The corporates, ja, so 23 that I, ja, that was, this is a big worry, the not paying 24 over of VAT and Pay as you Earn. The other taxes are 25 compliance taxes but these are, this is agency money and</p>
<p style="text-align: right;">Page 834</p> <p>1 up till now. So ja, it's a combination of - it would be 2 interesting to ask the other views as well. 3 COMMISSIONER: Well, I tell you what my 4 impression has been having spoken to a lot of people, there 5 are a lot of very good people and committee people in this 6 place. Forget about rogue units. There's a lot of very 7 good people here. That's what I've experienced. I'm sure 8 there are some bad people as well. 9 DR CAROLISSEN: Sure. 10 COMMISSIONER: You know, there's a lot of 11 good people. 12 MS STEINBERG: This organisation has so 13 much talent and so much dedication. It's remarkable. 14 COMMISSIONER: Anyway, let's get on with 15 diagnosing - 16 DR CAROLISSEN: So okay, so we have now I 17 think talked quite a bit about the operating model so 18 actually I'm quite close to completion. So two years into 19 the new operating model it's become evident that SARS has 20 regressed. So I spoke about the revenue. It's flattened. 21 Whilst the Bain operating model diagnostic in 2015 22 identified a potential customs and excise revenue gap of 23 about 70 billion for collection in 27 over and above the 24 trend of 5% revenue growth from customs/excise indeed 25 slowed to 1%.</p>	<p style="text-align: right;">Page 836</p> <p>1 it's a criminal offence. 2 PROF KATZ: Yes, and what's being done on 3 that? Do you - 4 DR CAROLISSEN: Well, there's a 5 compliance strategy which we have now implemented which 6 I'll speak to briefly but, you know, it speaks to the 7 compliance mind-set and the compliance climate and, you 8 know, people, some people when they sense an organisation 9 is in trouble they say this is my time to take chances. So 10 the number of returns not filed in 2008/09 was 4.2 million. 11 We call it outstanding returns. It is now with respect to 12 current year not counting because it's still in progress, 13 it's now 57 million. Compliance of not returning the, of 14 companies not returning that returns is 40%. 15 Now, companies are paying over their taxes but we 16 need the return to do the final reconciliation to see 17 whether they have paid adequately. We are only measuring 18 at 40% and that's already a correction from some of the 19 CIPC anomalies. Then the general state of health of an 20 organisation is measured by its debt book and its credit 21 book. Since roughly about 2015 the debt book has soared 22 50% from about 85 billion to 135 billion and most of those 23 debts is in the LBC environment so that is very, very 24 worrying. 25 MS STEINBERG: Just repeat those figures.</p>

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1 DR CAROLISSEN: From about, I'm trying to
 2 read from here, but about 2015 or so the debt book was
 3 roughly at about 85 billion. The latest figure that I've
 4 got on there is 135 billion so it's a 50% increase in debt.
 5 And mostly of that would be in the LBC environment.
 6 [12:37] COMMISSIONER: Just go back and give me
 7 that figure for how many returns are not submitted on time
 8 now, what was that figure?
 9 DR CAROLISSEN: 57 million.
 10 COMMISSIONER: 57 million returns?
 11 DR CAROLISSEN: Ja, across all the tax
 12 types.
 13 MS STEINBERG: We're going to get the
 14 details this afternoon on that.
 15 COMMISSIONER: I just couldn't quite, I
 16 couldn't quite reconcile that figure with the population
 17 for that matter. But in any way we'll hear about that.
 18 DR CAROLISSEN: The SARS credit book.
 19 This is money that's due to tax payers, was 40 billion in
 20 April 2013, it soared to 55 billion in 2016 and at some
 21 stage it spiked to over 70 billion in April 2015. So
 22 that's about -
 23 COMMISSIONER: That's money that should
 24 go, be going back into the economy I'm told?
 25 DR CAROLISSEN: JA, but some of them are

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1 in dispute, there's a whole lot of reasons, I think the
 2 experts will come this afternoon and take you through that.
 3 COMMISSIONER: That's quite complex, ja.
 4 DR CAROLISSEN: There are other issues
 5 which we can raise that I could raise about how SARS has
 6 gone backwards. SARS has regressed 47 points on the World
 7 Bank's ease of trading across borders index. The
 8 inspection process are the longest they've been in seven
 9 years, this I got from my custom colleague. From two days
 10 in 2013 to the current 23 days. When the customs
 11 modernisation programme was stopped in the latter part of
 12 2014 it further delayed customs modernisation and the
 13 implementation of the new customs act by more than three
 14 years and then of course we spoke about the major skills.
 15 So in summary Judge, that's post, that's my evaluation
 16 drawing on a number of indicators post the implementation
 17 and based on that I'm saying that we've gone backwards.
 18 MS STEINBERG: But now, can we say that
 19 there is a causal link between the new operating model and
 20 these declining figures?
 21 DR CAROLISSEN: Look like I said, let me
 22 take the revenue for instance because that I can speak with
 23 some authority on. Revenue is driven by the economy. So
 24 we know and we can work on how much the economy contribute,
 25 there's various statistical measures we can do. The second

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1 thing the policy changes which we have discussed,
 2 government had to raise policy, sorry tax rates so I'm not
 3 going to talk about it but certainly the slippage in
 4 compliance, the figures that I've given you and some of the
 5 money that's trapped in the system, certainly had a massive
 6 impact on revenue because that speaks to internal
 7 efficiencies. Sorry that speaks to the compliance and
 8 internal efficiencies, inefficiencies and then the way that
 9 we are construct, the LBC clients now have to interface
 10 with so many different interfaces where they had one stop
 11 entry. So from a revenue perspective this model certainly
 12 had not, the indicators are that the model has absolutely
 13 put us, put us back. Now you can go and investigate other
 14 areas, you can look at compliance, sorry audit figures, you
 15 can look at audit statistics, you can look at heat rate,
 16 you can look at surveys about taxpayer happiness. So
 17 there's a whole host of other things you can look at to see
 18 whether I indeed hit the hammer on, from my advantage point
 19 we are not optimally organised and in fact we are at sub,
 20 by far sub optimal organised.
 21 COMMISSIONER: Well can I then just see
 22 if we can quickly answer 1.12 of our terms of reference
 23 which I'll read to you. I don't say that we will answer it
 24 in that way, but your answer would be to this question.
 25 "Whether the change in the operating model of SARS post

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1 2014 contributed to inefficiencies and ineffectiveness with
 2 particular reference to the revenue shortfall of 2016/17
 3 and 2017/18," you would say yes?
 4 DR CAROLISSEN: I would say yes.
 5 COMMISSIONER: As to quantifying it, it's
 6 perhaps a bit more difficult.
 7 DR CAROLISSEN: It's a bit more
 8 difficult. But let me also go on record, because I have
 9 been many cases was the spokesperson of SARS on many of
 10 these issues and some people would say that yes you always
 11 pointed out that SARS is collecting 26% of tax to GDP and
 12 therefore the organisation is on a healthy track. Now one
 13 of the key reasons why we had to celebrate even the
 14 smallest of successes was to keep the morale up of this
 15 institution. We had to make sure that we make those
 16 targets that were set for us and that to some degree
 17 focused people on doing the job and find a work around to,
 18 despite very difficult circumstances. So I have to make
 19 this clear because I don't want to be accused of saying
 20 that I said in the past that SARS collect 36% and now I'm
 21 saying that it's suboptimal. People work very difficult
 22 and very long hours and under very difficult circumstances
 23 and the trust that the tax payer have in the organisation
 24 is by us still continue to deliver under very difficult
 25 circumstances. That's number 1 and number 2 this

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1 government is utterly reliant on us collecting every cent
 2 whatever the conditions are because as I pointed earlier if
 3 we don't collect that cent, that cent must be borrowed at
 4 very expensive -
 5 COMMISSIONER: Or the tax rate must go up
 6 and you can only put it up so far.
 7 DR CAROLISSEN: So just getting to sub -
 8 MS STEINBURG: Before you go off that, I
 9 must just stress it's been pointed out to me that you have
 10 made public statements as late as last year talking about
 11 SARS is proud to confirm that the risk engines have saved
 12 the national fiscus over 55 billion etcetera, etcetera,
 13 etcetera and you are saying there isn't a contradiction
 14 between what you're saying now and what you said then.
 15 Just elaborate.
 16 DR CAROLISSEN: So there is for me no
 17 contradiction what was, what we put out in the public
 18 domain because for the simple reason we were, we had to
 19 keep the morale up of the SARS staff and we had to show the
 20 tax payers that despite the difficulties that we are still
 21 operating as an efficient tax administration despite
 22 difficult circumstances and therefore for us to put out
 23 whenever we registered a win or a, like one of the big wins
 24 that we normally that we celebrate is when we achieve our
 25 targets that is absolutely necessary to keep people focused

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1 and to make sure that they continue because if you don't do
 2 that and the morale is kept at the levels that you probably
 3 picked up South Africa would have been much bigger
 4 trouble then what we are.
 5 PROF KATZ: Sorry Doctor, can I just ask,
 6 in answer to the judge when he read to you that terms of
 7 reference and asked for the causal relationship between the
 8 model and the non-collection I suppose there's one other
 9 dimension. It may be that the model could be bad but it's
 10 implementation is also bad. So there's the model and its
 11 implementation but unless one says that a model that leaves
 12 a lot of space for bad implementation is an effective
 13 model. What would you say about that?
 14 DR CAROLISSEN: Okay so I hope I heard
 15 you right. So the model eroded all the, eroded or
 16 terminated the SARS strategic journey that we were on it
 17 terminated it and it didn't fill it with a new strategy.
 18 So in other words remember my point, structure follow
 19 battery. So here you have a model appearing out of the
 20 blue what is the underlying structure, strategic shifts
 21 that happened. So you already have got that problem. The
 22 second problem is that you now have to capacitate that
 23 model. This capacitation didn't go according to plan in
 24 the sense that you match your requirements to what your
 25 available capacity is and compensate in those areas where

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1 you need to get additional capacity. I hope I'm -
 2 MS STEINBERG: Very clear.
 3 DR CAROLISSEN: Ja, so you have this
 4 double whammy. You have a car that can only got at 30
 5 kilometres per hour and you have a driver that don't know
 6 where he is going. I'll stop this analogy, I'm not good at
 7 it. Ja, we, in fact let me deal with some of the issues,
 8 we are busy at the moment trying to fix some of those
 9 things because not fixing them will continue for us on this
 10 path of suboptimal performance. So we're bringing back the
 11 big large business corporate concept and the acting
 12 Commissioner can speak to it in a bit more detail about
 13 what some of the corrective actions are currently happening
 14 in this particular area. But you have to decide according
 15 to my mind whether you are going to recommence the previous
 16 strategic journey and then reconfigure yourself so that
 17 your structure follow your strategy or if in the event that
 18 you're going to shift your strategy be clear about what
 19 shifts you need to do before you change the -
 20 PROF KATZ: Can I ask you a question, one
 21 of our terms of reference is to recommend what's necessary
 22 to remedy. So in that last point you've made would you
 23 totally abandon the current model and go back to the
 24 continuation of the strategy or not?
 25 DR CAROLISSEN: Well the strategy has not

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1 failed, the strategy is actually and there is very clear
 2 for us to see. This slide tells you that the strategic
 3 journey that we were on with were the correct journey. We
 4 had, most of our health indicators were very positive. We
 5 understood that there's always continuous tweaking and to
 6 answer the judge's point the inflection on that, the last
 7 inflection where the red line starts to flatten out that
 8 tells you that we are, when you are on a tipping point like
 9 this either you go up or you go down and we need to decide
 10 for ourselves which way we're going go.
 11 COMMISSIONER: Well I don't think it's a
 12 matter of decision. You want to decide that it should go,
 13 it's a question of how do you get it to go up.
 14 DR CAROLISSEN: Ja.
 15 COMMISSIONER: You need to decide how to
 16 get it to go up.
 17 DR CAROLISSEN: So to be clear -
 18 COMMISSIONER: But just to go back to
 19 what Professor Katz just said, following from what you said
 20 earlier and what we've heard from others I mean to just
 21 abandon what you got now and try to go back four or five
 22 years and, I mean how do you fill that gap, your, what has
 23 been built then and developed then stopped. Now how do you
 24 fill that gap? So what would you say, I'd like to hear
 25 your answer to Professor Katz's question. What do, what

<p style="text-align: right;">Page 845</p> <p>1 would you do, do you just slowly build it back up and 2 slowly abandon the system you've got or do you, you don't 3 just throw the whole thing out I would imagine. 4 DR CAROLISSEN: No, because as I said 5 people have found there are enough people in SARS to know 6 what an excellent organisation looked like and at least 7 that memory is there. We also have enough people that have 8 got the correct alignment with the higher purpose of SARS. 9 We have enough skills that can, we've lost a lot of skills, 10 but we have enough skills to put us back onto the journey 11 that we were on and the journey that worked. Having said 12 that Judge, we also have come to recognise that perhaps we 13 need a skill set also going forward. We need people that 14 are au fait with data analytics, people that are au fait 15 with the modern technology that's pervasive, becoming 16 pervasive and so this gives an opportunity to put us back 17 on the correct path but it gives us and I'm saying with 18 very great circumspection because I don't want to be 19 interpreted wrongly. We also have the opportunity for some 20 renewal to infuse us with fresh young skills, people that 21 understand how the internet work, people that understand 22 how gadgets work, people that understand social media. 23 People that think differently. The tax payers of today are 24 the millennials, are the people that are probably a lot 25 different to us. So my question, let me be blunt because I</p>	<p style="text-align: right;">Page 847</p> <p>1 approach is dealt with in the enforcement environment. 2 Currently the entire debt sits in enforcement and to my 3 mind that is not the correct arrangement but I'm sure you 4 will have debt experts that talk about that. But to my 5 mind that is not, because since that has been done our debt 6 has just gone the wrong direction. At some stage we 7 thought 85 billion was a lot of money but you're talking 8 about a 135 billion then 85 billion seems to be very 9 attractive. 10 MR KAHLA: But I understand that actually 11 nothing has changed, in fact that the approach to debt 12 management is the same as it was pre the new operating 13 model. Even though the new operating model suggest it must 14 be dealt with differently, am I getting it wrong there? 15 DR CAROLISSEN: So just to put it in a 16 short retort. I think a lot of discussion need to go into 17 the debt because we're clearly not getting it right. 18 COMMISSIONER: No, but I think the thing 19 is we heard the evidence of the witness who was in charge 20 of debt collection and they split the two up and he said, 21 so someone, the two of them were put in different groups 22 now and he said the two of us got together and talked about 23 it and said it's ridiculous to split it up so we'll just 24 work together to keep it together. In fact, and my 25 colleague went down to Durban Docks last week, because</p>
<p style="text-align: right;">Page 846</p> <p>1 don't, I think I get the feeling I'm a little bit skimpy 2 on, I'll put us back on a trajectory that we were and I'll 3 take cognisance of the changing environment and I'll make 4 sure that we compensate for that. 5 COMMISSIONER: Ja, well that question is 6 how do you get that back into an organisation and in 7 particular well I won't, ja let's go, ja I understand. 8 MR KAHLA: Just one problem to track you 9 a little back maybe, it's part of your considerations on, 10 as you're finalising. There's certain determinations that 11 have been made under the new operating model, for example 12 splitting the pre-final demand and the post final demand in 13 debt management. But I understand that even though that 14 was what was determined to be done there's never been, that 15 has never been implemented. Is that so and if that's so 16 why is the reason, what's the reason rather? 17 DR CAROLISSEN: Ja, it can become quite 18 long but I'll try to be very brief. You saw the spike in 19 debt. It's money that's owed to SARS and money that we 20 need to get into the system to improve governments ability 21 to service its obligations without having to borrow. The 22 debt situation must be sorted out very quickly. The debt 23 value chain must be re-established to make sure that your 24 little E-function as we refer to it is dealt with in the 25 service environment and the big E which is the big hammer</p>	<p style="text-align: right;">Page 848</p> <p>1 there's been talk of well there's a whole huge problems 2 with Durban Docks. I don't want to waste too much time, 3 who reports to me that the people of Durban Docks say we're 4 operating as we always did and it works very well. So the 5 question is, you know there's complex questions here, to 6 what extend did things change at all and, you see but I 7 think we must be careful not, you know we can't, we can't 8 manage SARS. 9 DR CAROLISSEN: Ja. 10 COMMISSIONER: We can make 11 recommendations and say how it should be managed and who 12 should manage it. But we're not going into micro 13 management and recommending how SARS should operate 14 etcetera. I don't think that we're in that field. My 15 colleague Mr Kahla is a businessman on my left, he knows 16 about these things. I assure you I don't. I couldn't 17 manage. So our recommendations need to be concentrated on 18 how do you get it managed again rather than how to manage 19 it. Is that right? 20 PROF KATZ: Absolutely right. 21 DR CAROLISSEN: So - 22 COMMISSIONER: But anyway thank you very 23 much. Is there a lot more? 24 MS STEINBERG: No. 25 DR CAROLISSEN: Just quick summary.</p>

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1 COMMISSIONER: Thank you very much.
 2 DR CAROLISSEN: The above I'll brush
 3 through very quickly. So in summary like I said one would
 4 expect that Bain would first have assessed the impact of
 5 the strategic journey of SARS since its inception.
 6 Structure follow strategy, I've dealt with those in a lot
 7 of detail. The timing of the release of the operating
 8 model and incorporation of analysis which were done post
 9 the release of the operating model. I spoke about the tax
 10 gap rationale and the concentration of power and, so I'm
 11 not going to go back into that again. It also, one point
 12 which I alluded to, many senior people that could have
 13 added a lot of value were not interviewed, like the head of
 14 customs for instance, which I'm aware of. Some of the
 15 findings were not new, we were, it was on our agenda, the
 16 high net worth and the debt. CIT revenue gap is due to
 17 trade mispricing, I spoke to that and say there's a lot
 18 more complications just to take a superficial analysis like
 19 that and then I think probably the main point that I want
 20 to end of with I would submit that as professional
 21 consultants Bain should have distanced or at least
 22 cautioned against the drastic departure from their proposed
 23 operating model options. The final model adopted by SARS
 24 violated at least one important design principle, that of
 25 balancing the organisation. The concentration of power in

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1 BAIT just get enforcement in the final model is puzzling to
 2 say the least. It is clear that this limited approach by
 3 Bain resulted in the retrogression of SARS institution.
 4 The realignment with intended strategic journey is an
 5 imperative.
 6 COMMISSIONER: Thank you.
 7 MS STEINBERG: Thank you.
 8 COMMISSIONER: Let me just get one thing
 9 clear. Advocate Steinberg quite deliberately asked you to
 10 come now and ask Bain to come at the end of next week so
 11 they could hear what you have to say and I have no doubt
 12 that they will come and respond to a lot of what you say
 13 which is their good right to do so and we will listen to
 14 their, what they say as well. It might mean, if you don't
 15 mind that we would ask you come back again. But we'll have
 16 to look at that at that time to see exactly where the
 17 differences between you lie and see which way we should be
 18 looking at it ourselves. So we're very grateful to you,
 19 it's been very informative to me and I'm sure to my
 20 colleagues but it might not be the end of the road for you.
 21 Thank you.
 22 MS STEINBERG: I want to thank you for
 23 the enormous effort you put into putting this together and
 24 I'd like to point out that we have been consulting for many
 25 weeks and long before Dr Carolissen was appointed to his

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1 new post, people have asked me whether he's perhaps
 2 spilling the beans because he won't be here in the next
 3 year. It is not the case at all, I would like to make that
 4 clear and best of luck for your secondment.
 5 [12:57] COMMISSIONER: What time are we going to
 6 reconvene?
 7 MS STEINBURG: Shall we say 2 o'clock in
 8 an hour.
 9 COMMISSIONER: That's fine, thank you
 10 very much.
 11 [INQUIRY ADJOURNS INQUIRY RESUMES]
 12 [14:04] COMMISSIONER: Let me just say that if
 13 anyone wants a transcript of the evidence you hear at all
 14 it will be on the website of the commission first thing in
 15 the morning after each day. If you want to know the
 16 address of the website, I've given Norman the letterhead.
 17 It's got the website address on it.
 18 MS STEINBERG: I think members of the
 19 press have also asked for copies of Dr Carolissen's
 20 presentation.
 21 COMMISSIONER: Sorry, just speak up?
 22 MS STEINBERG: That members of the media
 23 have asked for copies of Dr Carolissen's slides that he put
 24 up here. So I'm sure we can put those on the website too.
 25 COMMISSIONER: Those will go on the

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1 website as well, yes.
 2 MS STEINBERG: Okay.
 3 COMMISSIONER: Will you just arrange
 4 with –
 5 MS STEINBERG: Ja, the secretary's here
 6 and she'll –
 7 COMMISSIONER: Will you just get those
 8 slides that he used? Have we got them? I presume you have
 9 them there.
 10 MS STEINBERG: Ja, we'll need them
 11 obviously in the, ja we do, we do.
 12 COMMISSIONER: If we can just get those
 13 put on the website as well with the evidence. And I think
 14 the other thing if you said you were going to be referring
 15 to various affidavits as well. Well any affidavits that
 16 you put to a witness at all we'll put them on the website
 17 as well so you can have access to the full –
 18 MS STEINBERG: Well many of them are not
 19 available for public consumption.
 20 COMMISSIONER: Well those that are.
 21 There are some that are available.
 22 MS STEINBERG: Yes.
 23 COMMISSIONER: Other than those that we
 24 have taken confidentially, is that correct?
 25 MS STEINBERG: No, there are many where

<p style="text-align: right;">Page 853</p> <p>1 the condition that it's given is that in the public space 2 that person will remain anonymous and therefore I would not 3 put up the affidavit on a website but I would like to refer 4 to the evidence albeit anonymously. 5 COMMISSIONER: Well should the affidavit 6 under conditions of anonymity, in other words redacting who 7 it is, should the content go on the website? 8 MS STEINBERG: I'd have to look at that 9 because I think if the whole affidavit were revealed it 10 might be too easy to identify the individual. There are 11 also many affidavits that have confidential information in 12 them and non-confidential information in them. 13 COMMISSIONER: Okay. So whatever you put 14 to the witness will obviously be on the record in any 15 event. 16 MS STEINBERG: Yes. 17 COMMISSIONER: You're saying we should 18 not put the rest on because it could identify the people or 19 it's been given on conditions that it will not be made 20 public generally? 21 MS STEINBERG: That's what I'm saying. 22 But I have the affidavits signed and commissioned so that 23 their status and their value as evidence is good for this 24 commission. 25 COMMISSIONER: That I understand</p>	<p style="text-align: right;">Page 855</p> <p>1 MS STEINBERG: Dr Malovhele, thank you 2 for coming in. You joined SARS in 2005. Can you tell us 3 just before the new operating model came in what your 4 position was? 5 DR MALOVHELE: I was the Executive Tax 6 and Customs Compliance Risk and Analysis. 7 MS STEINBERG: So you were in charge of 8 the unit that Dr Carolissen spoke about this morning that 9 was broken up? 10 DR MALOVHELE: Yes. 11 MS STEINBERG: Yes. And you are 12 currently a domain specialist? 13 DR MALOVHELE: Ja, what they call domain 14 specialist. 15 MS STEINBERG: Yes. Dr Malovhele's 16 evidence really looks at the whole question of compliance 17 and the function of his unit in particular, which was 18 compliance strategy and monitoring that existed until the 19 advent of the new model. And I'm going to ask him to begin 20 by talking about what compliance is and what compliance 21 research is and really internationally as well as here, how 22 it's understood and what its importance is. 23 MR MUDAU: Thank you. The unit that I 24 was heading was tasked with looking at compliance, tax 25 compliance or tax and trader compliance. Now by tax</p>
<p style="text-align: right;">Page 854</p> <p>1 MS STEINBERG: Ja. 2 COMMISSIONER: But they're for the eyes 3 of the commission only, is that what you're – 4 MS STEINBERG: Correct. 5 COMMISSIONER: It's unfortunate but that 6 is the case. Ms Steinberg, for the moment at least, I 7 haven't seen these affidavits. For the moment at least – 8 and I'd like to discuss it with my colleagues, the only 9 thing that we will take into account in the evidence will 10 be what you put to the witness. We will have to consider 11 again whether anything else in the affidavit will be taken 12 into account by us but that's something we need to 13 consider. Is that in order? 14 MS STEINBERG: Ja, that will require some 15 discussion, I guess. 16 COMMISSIONER: Yes. Thank you very much 17 for coming. We appreciate it very much. Could you just 18 state your names for the record, please? 19 DR MALOVHELE: Mr name is Thabelo 20 Malovhele. 21 COMMISSIONER: And do you affirm that the 22 evidence you give will be the truth, the whole truth and 23 nothing but the truth? If so will you say I do? 24 THABELO MALOVHELE: I do. 25 EVIDENCE BY DR MALOVHELE</p>	<p style="text-align: right;">Page 856</p> <p>1 compliance we are referring to the obligation that 2 legislation puts on the taxpayer or the trader to register 3 to file, to declare and to pay. The OECD recommends that 4 tax administration should have the capability to measure 5 and to monitor compliance. When I joined SARS that 6 capability was not there and then I was tasked to develop 7 and build that capability and capacity. It's the work that 8 started in 2007. 9 We looked around and we found that the Canada 10 revenue authority is the authority that has done some work 11 on measuring compliance. We did a study visit in 2008 and 12 we came back and then we developed using the framework from 13 what we learnt from the Canadians we developed a framework 14 that's relevant for SARS. The basis of that framework for 15 evaluation was the legislation. We looked at what the 16 legislation says about registering, about filing, about 17 declaring and payment. The whole idea was look at the 18 lifestyle of the taxpayer, you know from the time they 19 register until they get out of the system. So we developed 20 a set of indicators where we were looking at compliance in 21 terms of on time, late or non-compliance. At the end of 22 the exercise we had 169 compliance indicators. I must 23 mention that initially we looked for a partner or a service 24 provider to develop the tool for us but we could not find 25 any. And then we worked with some of the, our team in data</p>

<p style="text-align: right;">Page 857</p> <p>1 analytics who then developed that tool. In the previous 2 years when you were looking for compliance data you will 3 have to wait for weeks if not months for you to get data 4 but with the development of the tool that we call 5 compliance evaluation monitoring information system SARS is 6 able with the click of buttons to get information on 7 compliance and you can get the information on compliance at 8 a national level, at a regional level and even at an office 9 level. And so between, when we started this project and 10 when we closed it and rolled out the tool SARS was blind as 11 to the status of compliance. We didn't know how many 12 people are filing, how many are not filing, how many people 13 are declaring correctly, how many people are not declaring 14 correctly, how many people are paying, how many are not 15 paying.</p> <p>16 So when we finished the project, I think in 2011 17 we were then able to give SARS a picture of this is the 18 compliance of your tax base and when we give SARS that 19 picture of compliance we then advocated that we should 20 develop a proper compliance strategy that would then be 21 addressing those areas where there's non-compliance. The 22 first document that we produced was used by the IMF when 23 they were doing the diagnosis, the TADAT. They used the 24 compliance report that we produced and they also 25 recommended because of the good work that SARS did that</p>	<p style="text-align: right;">Page 859</p> <p>1 unit in 2014, just before it was dismantled got five As and 2 one B. And it was rated as one of the best compliance 3 units in the world. And that's in the world meaning better 4 than most advanced economies and developed countries. It 5 was a top notch compliance unit. I think that must be 6 said.</p> <p>7 Ms Singh also says, because there's a human 8 element involved to this, that you had mentioned that there 9 were no consultants or external service providers who could 10 build this model for you. And she says, "The development 11 of the compliance programme demanded incredible effort, 12 dedication and enormous hours of work. It involved 13 collaboration across SARS and the project was anchored by 14 the Group Executive of Strategy and Risk who assigned the 15 main responsibilities to my former executive, Dr Malovhele 16 and me. The final product resulted from gathering, 17 collating, analysing and understanding a wide range of 18 information and data from a variety of sources and all this 19 work is contained in 170 page baseline document which was 20 the overall strategy document." Would you agree with that?</p> <p>21 DR MALOVHELE: I do. 22 COMMISSIONER: Doctor, may I just ask 23 you, what are your qualifications? 24 DR MALOVHELE: I've got a BA degree and 25 MBA and a PhD.</p>
<p style="text-align: right;">Page 858</p> <p>1 other countries should come and learn from us how we do 2 compliance and I must mention that a number of African 3 countries have come to us and we have shown them how to 4 measure, monitor and report on compliance. In addition to 5 that, in 2012/13 the Minister of Finance launched the first 6 SARS compliance programme that identified seven areas that 7 SARS should be focusing on. And when we developed the 8 compliance programme the idea was that it should be a 9 yearly programme, but when we were having conversations 10 with our Exco they then said this is new, let's rather do 11 it for five years and let's monitor and then see what 12 happens and then we agreed to that. But each and every 13 year we were producing reports that were telling us what 14 are the achievements with the implementation of the 15 compliance programme.</p> <p>16 MS STEINBERG: Can I ask you to pause a 17 moment? I have an affidavit from somebody who worked for 18 you until very recently when she resigned and that's Ms 19 Varsha Singh. And I would just like to supplement a little 20 bit of what you've said with what she has said. She 21 firstly reproduces the aspect of the TADAT score cards that 22 is applicable to this unit and there are six indicators. 23 They range from the process used to identify, assess and 24 prioritise taxpayer compliance risks to the level of public 25 confidence in the tax administration, etcetera. And this</p>	<p style="text-align: right;">Page 860</p> <p>1 MS STEINBERG: She also I think describes 2 what a compliance programme is very pithily and I'd like 3 you to tell me if you agree. She says the compliance 4 programme is essentially a tool which tax administrations 5 use to communicate with the public informing them of 6 compliance trends, areas of high compliance risk and the 7 intended strategies to mitigate risks. The programme is a 8 powerful tool as it demonstrates among others the 9 following: firstly the business intelligence capabilities 10 to you can identify high risk segments and develop 11 appropriate differentiated treatment strategies. You align 12 the organisation in terms of where they should focus, and 13 you entrench SARS' commitment and accountability because 14 SARS publically states its interventions over the next five 15 years. And it cautions taxpayers from embarking on 16 activities that SARS deems non-compliant." Do you agree 17 with that?</p> <p>18 DR MALOVHELE: I do. 19 MS STEINBERG: Okay, well please carry 20 on. 21 DR MALOVHELE: Okay, then – 22 MS STEINBERG: I'm sorry, I'm sorry. 23 There is one other paragraph that I think is important. 24 Given the diagnostic, Bains diagnostic that we discussed, 25 this base line document which was developed, when was that?</p>

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1 DR MALOVHELE: 2011/12 somewhere there.
 2 MS STEINBERG: Right. So it identified
 3 seven focus areas for SARS which were adopted and they were
 4 high network individuals and their associated trusts, large
 5 business and transfer pricing, the construction industry,
 6 the illicit cigarettes in particular, under valuation of
 7 imports in clothing and textiles industry, tax
 8 practitioners and trade intermediaries and finally small
 9 business. So as I understand since 2011/2012 those were
 10 the priority areas on your radar screen and you had
 11 developed strategies to address those areas.
 12 DR MALOVHELE: For each of those areas
 13 there were strategies and we were monitoring the
 14 implementation of those strategies and reporting on them on
 15 a quarterly basis. And then 2013/14 when the new operating
 16 model came, the –
 17 MS STEINBERG: You missed out on
 18 something quite important before we get there. Tell me
 19 about the public opinion survey?
 20 DR MALOVHELE: Okay, when we were doing
 21 the work of compliance evaluation we also developed what we
 22 call a tax compliance index for each tax type but we also
 23 have an aggregated score. And the idea behind that
 24 aggregated score was for SARS, we wanted SARS to adopt the
 25 tax compliance index as a measure that they will use to

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1 determine whether there's improvement in compliance or
 2 there's deterioration in compliance. And because the tax
 3 compliance index is based on data we then decided that
 4 let's also have another measure from the public opinion.
 5 We then conducted a survey that gauges public opinion,
 6 which we call it attitude to tax compliance index or public
 7 opinion index. And that public opinion index is used to
 8 measure the fifth strategic outcome for SARS. So SARS then
 9 had two measures, the public opinion index and the tax
 10 compliance index and we were monitoring how these two are
 11 moving with respect to tax compliance.
 12 MS STEINBERG: And I see interestingly in
 13 2013 the public opinion index was measured at 67.4% and the
 14 tax compliance index was measured at 70.6% which shows
 15 almost a direct correlation between those two measures.
 16 DR MALOVHELE: Yes.
 17 [14:24] MS STEINBERG: So I see the value of the
 18 tool, I suppose I am saying.
 19 DR MALOVHELE: Ja, and I must add that it
 20 was not only the Public Opinion Index and the compliance
 21 programme that we did but we were also providing inputs
 22 into the SARS annual report, the strategic planning process
 23 and the SARS, you know, annual performance plan on the
 24 performance manager. And I must also maybe bring this to
 25 the attention of the commission. Prior to the development

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1 of this compliance measuring tool SARS will only report on
 2 PIT, you know, during the filing season but with the
 3 development of compliance measuring tool SARS is able to
 4 report on compliance for the four major tax types and which
 5 is an achievement that SARS has made.
 6 COMMISSIONER: PIT being personal income
 7 tax.
 8 DR MALOVHELE: Personal income tax, yes.
 9 MS STEINBERG: And then just to summarise
 10 something you said you actually went to Canada to learn
 11 this best practice model. You adapted it to local
 12 conditions and then you've been asked to go to various
 13 African countries to help them put this in place.
 14 DR MALOVHELE: They will come and -
 15 MS STEINBERG: They'll come and visit.
 16 DR MALOVHELE: Ja.
 17 MS STEINBERG: And you've then helped
 18 them establish similar models.
 19 DR MALOVHELE: Ja.
 20 MS STEINBERG: Okay. Then let's move to
 21 the introduction of the new operating model which is what
 22 you were about to do.
 23 DR MALOVHELE: Okay. When the new
 24 operating model was introduced - okay, let me say before
 25 that when we started to hear that there's going to be a new

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1 operating model Mr Makwakwa asked me to write a document on
 2 case selection because case selection was part of the, you
 3 know, the unit that I was heading, part of its function was
 4 to evaluate cases for enforcement and internal
 5 investigation. And the other part was it was also
 6 responsible for the exchange of information, international
 7 exchange of information and domestic exchange of
 8 information.
 9 Now, with Mr Makwakwa he asked me to write a
 10 document that will assist SARS with regard to case
 11 selection in the future. So because I had experience in
 12 case selection so I put down a document and I gave it to
 13 him and when the consultants came he gave the document to
 14 the consultants and then the consultants came and they
 15 spoke to me in terms of how case selection should be.
 16 But what then happened was different from the
 17 recommendation that I made because the recommendation was
 18 that previously we had different structures looking at case
 19 selection and going forward SARS should bring all case
 20 selection structures into one structure but that was not
 21 implemented. We still have this fragmented case selection
 22 structure. So that's one part. So one afternoon we got an
 23 update that says, you know, organisational update on
 24 transition.
 25 And then there was a list of functions, you know,

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1 the new functions, old functions and the functions that
 2 were dropped. Immediately I realised that the compliance
 3 research function it's missing. So then I wrote an email
 4 to the team that was responsible for the operating model to
 5 say hey, I see this function it's missing here so then they
 6 came back to me and said, okay, we will look at it. And
 7 then when I realised that they are not looking at it then I
 8 made follow up to say there's this function and this
 9 function is very critical.
 10 They came back to me. They said okay, from your
 11 three roles, compliance evaluation, case selection and
 12 exchange of information, we have taken away case selection
 13 and exchange of information but on compliance evaluation
 14 we'll come back to you. And then they didn't come back to
 15 me. Later on I came across an email that said to me we are
 16 moving compliance programme to BAIT. Then I said
 17 compliance research function is not only compliance
 18 programme.
 19 There are more deliverables that this unit was
 20 responsible for and I must mention this unit was not a big
 21 unit. I think we were about six or seven people but very
 22 good and competent people because we build the skill and
 23 the competency from 2007 coming to these other years. So
 24 then I learnt that, no, they are moving the compliance
 25 programme, just one deliverable and leaving other

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1 deliverables unattended to, to BAIT.
 2 And then they said no, no, this is what is going
 3 to happen. BAIT is going to do their own compliance
 4 programme. Customs is going to do their own compliance
 5 programme and then strategy will coordinate. I said but in
 6 BAIT there's no one who has worked on the compliance
 7 programme. They don't even know the process so why are you
 8 taking it to BAIT. Customs, they don't have the skill and
 9 the competency to do the compliance programme. Why do you
 10 then move this to customs?
 11 And as we speak there's no BAIT compliance
 12 programme. There's no customs compliance programme.
 13 There's no SARS compliance programme, you know, even though
 14 SARS went to parliament and said we have the compliance but
 15 there isn't because where it was moved they didn't have the
 16 competency and the skills to do it. So I wrote quite a
 17 number of notes to senior people explaining to them there's
 18 a problem here. The compliance research function it's no
 19 more. It's not there.
 20 But I never got any feedback or the outcome that
 21 I needed I didn't get. Then later on I was then informed
 22 that I am misplaced. I'm no longer having a role, you
 23 know. And I couldn't understand it and if I take you back
 24 when the new operating model was being spoken about three
 25 individuals, different individuals, they came to me and

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1 said, Thabelo, don't expect to have any management position
 2 in the new administration.
 3 And you know, I laughed it off and to say no, it
 4 can't happen to me. It can't happen to me. You know, I've
 5 been around here and it can't happen. But when I was told
 6 that I was unaffected I realised that, you know, what I was
 7 told was the truth. Now, so what then happened was Vasha,
 8 the one the Advocate was reading her affidavit from, she
 9 was moved to BAIT. She was also affected, you know. She
 10 was moved to BAIT.
 11 I was then approached by Dr Carolissen and he
 12 said to me I saw your name on the list of the
 13 supernumeraries. So what's going on? I said well, I don't
 14 know. And then he said can you come and work with me. So
 15 I said okay, what will I be doing. He said you know, you
 16 will decide what you will be doing. So that's when I moved
 17 to there. Now, when those people who took the functions
 18 realised that we can't do this thing, this compliance
 19 research work or some of the functions, we can't do them
 20 then some followed Vasha in BAIT. Some followed me in TCI.
 21 But the challenge was that when you were an affected person
 22 you were not supposed to have any people reporting to you.
 23 So that meant that I have to do the work that was done by a
 24 team alone. You know, Vasha also had to do some work
 25 alone. We could not continue with reporting on the

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1 compliance programme in a way that is proper.
 2 MS STEINBERG: Can I read Ms Singh's
 3 version into the record here? She said, she says, "Between
 4 2015 and 2017 the compliance programme came to a standstill
 5 as I lost the resources to monitor its implementation."
 6 She's sitting in BAITs, remember. "It was disturbing that
 7 decisions which compromised the delivery of SARS
 8 commitments could be so recklessly taken and then
 9 ultimately reversed without any consideration of the
 10 consequences on SARS." Would you agree with that
 11 sentiment?
 12 DR MALOVHELE: I do agree there.
 13 MS STEINBERG: She says, "I was extremely
 14 distressed because I was responsible for some of SARS' key
 15 deliverables and as an affected employee I did not know how
 16 this work would be delivered. I had a team of staff who
 17 were stressed and anxious about their future and were
 18 hoping that I could provide some clarity. Unfortunately I
 19 along with most other managers had been so disempowered
 20 that we could not provide support to our staff during a
 21 major restructuring as we were completely in the dark
 22 ourselves."
 23 DR MALOVHELE: I agree.
 24 MS STEINBERG: Were you in the same
 25 position?

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1 DR MALOVHELE: I was in the same position
 2 and I had to go and negotiate for some of the resources.
 3 You know, I had to go to other managers and ask them to
 4 take the resources that we had because we had no use of
 5 those resources because the function was no more there.
 6 MS STEINBERG: She says, "Soon after
 7 being unplaced the reporting lines of my remaining staff
 8 members were changed by HR on the SAP system without my
 9 knowledge. My staff were also not engaged in the new
 10 operating model team or not engaged by the team or HR as to
 11 why they were being moved into different units, nor what
 12 their roles or expectations were. My staff would ask why
 13 their reporting lines had changed and I had no answer for
 14 them. Two of my staff members were incorrectly placed and
 15 up until 2018 this has still not been corrected with either
 16 one of them. Staff were being moved around so hastily and
 17 without any consultation to understand their skills and
 18 experience in order to try and place them correctly."
 19 DR MALOVHELE: True.
 20 MS STEINBERG: True. "Fear had gripped
 21 the organisation and staff were too scared to ask any
 22 questions. I believe that the lack of communication was an
 23 intentional manoeuvre by the leadership to create havoc and
 24 disharmony so that the targeted affected people would leave
 25 SARS." Did you share that impression?

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1 DR MALOVHELE: I did.
 2 MS STEINBERG: Carry on.
 3 DR MALOVHELE: Okay. Where was I?
 4 MS STEINBERG: Sorry, and by the way she
 5 became a generic specialist and she said she didn't really
 6 know what that meant. I must say I'm also puzzled.
 7 COMMISSIONER: Well, a generic specialist
 8 is rather difficult to work out.
 9 MS STEINBERG: It is a contradiction in
 10 terms, isn't it?
 11 DR MALOVHELE: Ja.
 12 MS STEINBERG: I can read you her job
 13 description. It'll perhaps help, Judge.
 14 COMMISSIONER: Well, that affidavit is
 15 obviously not confidential.
 16 MS STEINBERG: No.
 17 COMMISSIONER: Well, we'll read it in due
 18 course.
 19 MS STEINBERG: Okay.
 20 DR MALOVHELE: Okay, so when we were in
 21 this Vasha in BAIT, myself in TCI, then the deliverables
 22 followed us and it became a very, very difficult situation
 23 to manage because you don't have any support. I've been a
 24 manager for more than ten years. Now I've become a
 25 specialist. And it became a very, very difficult

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1 situation. However because I believed in managing
 2 compliance I continued to trumpet, you know, the compliance
 3 issues within the organisation.
 4 And what I will say to the, some of the
 5 executives that we are talking a lot more about revenue
 6 collection, revenue collection but there's no discussion
 7 about compliance. And from the work that I'm doing I see
 8 compliance slipping. It is just a matter of time, revenue
 9 starts to follow the slipping compliance. 2017 I was
 10 invited to a revenue breakaway, a meeting where I was
 11 supposed to present the tax gap. So and the Commissioner
 12 and the executives and other people were there. And I
 13 stood up and I said I don't have a tax gap to give to you
 14 but I will show you where the money is.
 15 So then they said no, tell us. So I showed them
 16 that compliance is slipping. You don't collect money
 17 without a return filed. All the money that you are
 18 collecting you are collecting from the returns that have
 19 been filed. But the returns that are not being filed, they
 20 are growing. More and more taxpayers are not filing
 21 returns. Those that are filing returns, if you look at the
 22 graph that I will show you later it is flattening.
 23 Those who were filing late are becoming non-
 24 filers. And then there was a push back to say no, tell us
 25 how much money is in those returns that are outstanding. I

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1 said I can't tell you. I don't know. Because you only
 2 know when the return is submitted, you know. So what I'm
 3 saying is go and collect these returns and when you collect
 4 these returns you would then get money. The push back was
 5 too much and given that I was a so-called domain
 6 specialist, you know, and I was a loner I didn't have
 7 backup.
 8 I was just invited because of the work that I did
 9 previously to go into that meeting but I was a loner and
 10 didn't have much support. So when I came back I prepared a
 11 compliance value chain and I sent the compliance value
 12 chain to those people who were saying no, no, no, what you
 13 are saying is not true. So in that compliance value chain
 14 I did indicate that revenue collection is at the end but
 15 here we need registration, filing, declaration, payment and
 16 deregistration.
 17 So revenue collection is at the end. And
 18 therefore in my view revenue collection is a consequence of
 19 compliance. And then I showed them the linkages and I
 20 started asking questions to say tell me where is your
 21 registration strategy. Where is your filing strategy?
 22 Where is your declaration strategy? And where is your
 23 payment strategy? And there was nothing. And I said this
 24 is the reason why compliance, non-compliance is increasing
 25 because we don't have anything in place that will arrest

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1 this non-compliance.
 2 I don't know whether that really also made my
 3 situation worse that, you know, I said I'm - if I'm going
 4 to be the lone voice I will be a lone voice. You know,
 5 fortunately Vasha was also there and informally we were
 6 supporting each other and saying let's not be silent.
 7 Let's speak about compliance. Now, towards the end of 2017
 8 if I'm correct with the dates there and when they started
 9 seeing that revenue is, we're not going to meet the revenue
 10 then they said but in May Thabelo told us that the money
 11 that we are not collecting is caught up in returns that are
 12 not submitted.
 13 Let's go and start working on getting those
 14 returns. But the challenge was that when the strategy that
 15 was conceived it did not target Pay as you Earn, it did not
 16 target value added tax. You know, you may recall that SARS
 17 has been in the streets, in the township, you know, which
 18 was the wrong market because where the money is, is where
 19 the Pay as you Earn and VAT and not with PIT because with
 20 PIT the money is already there. We just need to manage the
 21 outflow of it through refunds. But with CIT, VAT and Pay
 22 as you Earn there's a problem. In the slide that I will
 23 show you, you will see how CIT, how bad CIT is because we
 24 are not attending to i.
 25 [14:44] You will also see how bad VAT is because we were

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1 not attending to it. You will see how bad Pay as you Earn
 2 is. There's money, but that money cannot be collected if
 3 the returns are not submitted. This is part of, you know,
 4 the noise that we were trying to make as a generic and a
 5 domain specialist.
 6 PROF KATZ: Sorry can I just ask? All of
 7 this non-compliance, not getting returns, all of these
 8 things you've been saying was that across the board or are
 9 you talking of particular sectors of the economy,
 10 particular groups of taxpayers or is this just across the
 11 board?
 12 DR MALOVHELE: It's across the board,
 13 however, the compliance evaluation tool if you analyse it
 14 you go in and then start analysing. You can break it up by
 15 sector, you know even sub sector, you can break it up by
 16 sector in the region or sector in the office, sector in the
 17 region and sector nationally. You are able to see what's
 18 going on. Just to help you, when we did the compliance
 19 program, when we identified construction industry and after
 20 the compliance program was launched they came to SARS and
 21 said SARS how can you say that we are the most non-
 22 compliant industry? And then SARS provided the data and
 23 said this is what the data is telling us, they said how can
 24 we work with you to improve compliance. So you can slice
 25 it the way you want it and you will then know, you know,

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1 who is compliant, whether it's large business, you know,
 2 medium businesses or small businesses. The tool is very
 3 versatile.
 4 PROF KATZ: But was the non-compliance
 5 across the board?
 6 DR MALOVHELE: It is across the board.
 7 You will see on the slide that I'll show that it's across
 8 the board.
 9 MS STEINBERG: We're talking about the
 10 impact of the new operating model, can I again just put a
 11 couple of paragraphs to you? Since the new operating model
 12 was implemented there's been a lot of confusion on the
 13 accountability of the compliance program which is
 14 essentially the compliance strategy. Ms Singh says I was
 15 to play a strategic role in the case selection division yet
 16 BAIT had its own strategy division and therefore this
 17 wasn't making sense to me. And then she says elsewhere
 18 that these are examples of how our work was both fragmented
 19 and then duplicated. Would you agree with that?
 20 DR MALOVHELE: I do.
 21 MS STEINBERG: I just point out that one
 22 of the big principles of the design principles is not to
 23 duplicate and not to fragment. But the experience
 24 certainly in this unit was that that was the ultimate
 25 effect. She talks about the fact that you could really no

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1 longer deliver on your – what SARS required. And she gives
 2 an example which sounds quite serious that you informed her
 3 that Parliament had followed up on the compliance programme
 4 in 2017. And SARS was now under pressure to produce
 5 another one, but you hadn't actually been able to produce
 6 it because you were specialists somewhere. You didn't have
 7 a team to do so, the same with her. One of the group
 8 executives had then taken the initiative to produce a
 9 compliance program. And then she says to my disgust I
 10 noticed it was the same as the 2012 version. In my opinion
 11 it was an embarrassment for SARS as it included the focus
 12 areas from five years ago which were no longer relevant.
 13 It was an indication of how far SARS had fallen from being
 14 one of the leading administrations in compliant management
 15 in the world. Is that correct?
 16 DR MALOVHELE: It's correct. Let me put
 17 a context to that. When the new compliance – when the
 18 compliance programme, the compliance program that we had
 19 collapsed 2014, 15 and SARS had committed that by the end
 20 of 2016, 17 SARS will have a new compliance program. But
 21 there was no owner of the compliance program because the
 22 team that was responsible for the compliance program was
 23 dismantled. So when SARS realised that, you know, it's
 24 like we are in a bind here because we had promised
 25 Parliament that we will have a new compliance program.

<p style="text-align: right;">Page 877</p> <p>1 Then they said what can we do. So part of what needed to 2 be done to manage their reputational risk was to say let's 3 ask Exco to extend the previous compliance program that had 4 lapsed. And so that program was then circulated around and 5 when it was circulated around some people had some inputs 6 there. Then I was also brought into that to say Thabelo we 7 have a problem here, how do we manage this thing. So I 8 said well if you want to manage this thing then bring back 9 the team, bring back the team that did this thing. But in 10 the interim, you know, go and ask permission from Exco to 11 extend this for a year while the team is busy developing a 12 new compliance program. That is what happened. So if you 13 go and check the, let me call it the revised compliance and 14 the previous compliance program, it's the same thing, which 15 I believe that, you know, Vasha is referring to is the same 16 thing. There were a few comments that were made and 17 additions that were made, but it was still the same thing 18 which was an interim measure to try to manage the 19 reputational risk for SARS. However, it was not 20 implemented, so as we speak SARS does not have a compliance 21 program and although we have made commitments to Parliament 22 and said we do, we don't.</p> <p>23 PROF KATZ: Dr can I just ask two 24 questions, sorry to – this seems odd for SARS not to be 25 attentive to compliance. What impression does it make on</p>	<p style="text-align: right;">Page 879</p> <p>1 administration because they had bought into compliance and 2 revenue. It was easy you know. I could produce a 3 compliance report and go into the Deputy Commissioner's 4 office and say Sir, this is the picture, the picture is not 5 looking good. We need to do something about it. But after 6 the new operating model I didn't have anywhere to go except 7 for that meeting that I was called to. You know when the 8 revenue break away, that was the only opportunity that I 9 had to raise the issue of compliance.</p> <p>10 MR KAHLA: Given that one of the 11 fundamental principles relating to the new operating model 12 was on improving governance, were there anybody within the 13 executive team who said anything about the fact that you 14 had now weakened governance through the absence of this 15 compliance program?</p> <p>16 DR MALOVHELE: My boss, Dr Carolissen 17 because I started giving him information on compliance. I 18 say, boss, things are falling apart here. That's when he 19 started, you know, to communicate that message on 20 compliance. But I don't think some of the people, you know 21 this is my opinion you know, understood where he was coming 22 from. And I was never invited to say can you come and just 23 give us in detail as to, you know, how bad things are and 24 why are they bad as they are and what do we need to do, you 25 know, that will fix the problem. I was never called.</p>
<p style="text-align: right;">Page 878</p> <p>1 you? What would you think the reason would be?</p> <p>2 DR MALOVHELE: In my mind I thought that 3 there are people who only think that, you know, it's about 4 revenue. The fact that revenue is a consequence of 5 compliance is missing in many people. It's like if I use 6 an analogy it's like people who know about God from 7 funerals and weddings then you ask them who is God? Oh 8 he's somewhere in heaven. So there are people who have 9 neglected or who didn't want to listen to the fact that 10 when you are looking at a revenue administration it's not 11 only about revenue, it's revenue and compliance because the 12 other is a consequence of the other.</p> <p>13 PROF KATZ: But it seems so basic that, 14 surely it had some impact on you why am I encountering this 15 resistance to something that is so fundamental.</p> <p>16 COMMISSIONER: And obvious, I mean you 17 can't get money unless people pay it.</p> <p>18 PROF KATZ: I mean what –</p> <p>19 DR MALOVHELE: You are right. I really 20 struggled with how could we not understand such simple, 21 basic tax fundamentals.</p> <p>22 PROF KATZ: And weren't you able to 23 escalate it beyond people who were giving you push back on 24 such basic principles?</p> <p>25 DR MALOVHELE: We did with the previous</p>	<p style="text-align: right;">Page 880</p> <p>1 MS MASILO: So Dr Malovhele, what you're 2 telling us is that someone at SARS knowingly lied to 3 Parliament about the compliance program.</p> <p>4 DR MALOVHELE: Well I wouldn't use the 5 word lie, but we told Parliament half-truth.</p> <p>6 MS MASILO: Okay and what was being done 7 currently to revive the unit so that you can start to 8 produce the required reports?</p> <p>9 DR MALOVHELE: On October the 15th there 10 was a discussion at Exco, I have the minutes, where there 11 was a decision to say reconstitute the function and the 12 team. That was on the 15th of October and I think on the 13 18th, I might be mixing the dates there, there was also 14 another decision by Exco to say expedite the process of 15 reconstituting the team because we need the compliance 16 program. We need, you know, to be assisted with the 17 compliance strategy and that. As we speak today that 18 decision of Exco has not been implemented.</p> <p>19 MR KAHLA: When was that decision taken?</p> <p>20 DR MALOVHELE: Last year October, October 21 15 last year.</p> <p>22 PROF KATZ: October '17.</p> <p>23 DR MALOVHELE: I think October 17 24 somewhere there.</p> <p>25 MR KAHLA: October 2017.</p>

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1 DR MALOVHELE: Ja.

2 MR KAHLA: And it's still not been
3 implemented.

4 DR MALOVHELE: It's not implemented.
5 I've written memos, I've reminded people and I highlighted
6 the risks and as I speak now the compliance program has
7 been put on my score card to say Thabelo we need a
8 compliance program. You need a compliance program from me,
9 why. No you have done it previously. But in the operating
10 model it says BAIT will do it and customs will do it, why
11 me. And I said no he's following you.

12 MS STEINBERG: But you don't have staff.

13 DR MALOVHELE: And I don't have staff.

14 MS STEINBERG: And you're not allowed to
15 have staff.

16 DR MALOVHELE: And I'm not allowed to
17 have staff, but the organisation is expecting a compliance
18 program by the end of this financial year from me.

19 COMMISSIONER: You're not allowed to have
20 staff, Doctor, by virtue of what?

21 DR MALOVHELE: I'm a domain specialist.

22 COMMISSIONER: Domain specialists are not
23 in management, they are on their own.

24 DR MALOVHELE: Ja, ja.

25 MS STEINBERG: They're not allowed to

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1 have subordinates, they're not allowed to manage teams. So
2 what this witness is saying is he must do the same job
3 while being in a position where he has to do it alone.

4 PROF KATZ: And that follows from the
5 operating model.

6 MS STEINBERG: Yes. Because the unit
7 that he headed up was never placed on the new operating
8 model, aspects of it, not even all of it, aspects of it
9 were put in different places. One in customs, one in BAIT.

10 COMMISSIONER: How do you end up being a
11 domain specialist though, I mean you don't apply for this
12 job obviously?

13 DR MALOVHELE: No you don't. You are
14 told.

15 COMMISSIONER: You are told you are now a
16 domain specialist.

17 DR MALOVHELE: And you are given a
18 contract.

19 COMMISSIONER: And are you given a job
20 description?

21 DR MALOVHELE: No.

22 COMMISSIONER: Okay and you remuneration
23 structure?

24 DR MALOVHELE: The same as before.

25 MR KAHLA: When you say you're given a

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1 contract, is that a fixed term contract or is it still –

2 DR MALOVHELE: It's just a contract, it's
3 a permanent contract. You are an employee of SARS, you are
4 a domain specialist and ja.

5 MR KAHLA: Okay.

6 MS STEINBERG: Now one of the reasons
7 this affidavit is confidential and cannot go up on the
8 website is because it speaks to a very serious finding by
9 the Auditor-General in his latest reports. And the
10 affidavit goes into who is responsible for what I'll tell
11 you about and that's why it's the sort of affidavit that
12 simply one can't put up on the website, certainly not at
13 this stage because it details the journey and the personnel
14 involved, responsible for this finding. Now there are two
15 negative findings here and that is that –

16 COMMISSIONER: Negative findings by the
17 Auditor-General?

18 MS STEINBERG: By the Auditor-General
19 that relate directly to compliance and the one is for
20 personal income tax filing compliance and the other is for
21 corporate income tax filing compliance. And the Auditor-
22 General finds that the indicators overstated compliance in
23 its public document. And it did so in a way that it
24 breached – there are legislative requirements as to how you
25 measure things and the measurement is wrong because those

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1 legislative requirements were breached. So –

2 PROF KATZ: Sorry, are those new
3 legislative requirements or ones that were around for a
4 while?

5 MS STEINBERG: I think they've been
6 around for a while if I'm not mistaken. Perhaps you can
7 explain.

8 DR MALOVHELE: I think what happened with
9 this thing that really bothered me and Vasha was – we were
10 taken away from even setting the compliance targets. You
11 know we couldn't set compliance targets and we could not
12 report on those compliance targets. We were outside of
13 that. Other people took over that responsibility. Now the
14 challenge was when the definitions, you know, were changed
15 to make the compliance look better for PIT and CIT. I can
16 give an example of one definition that we fought but we
17 didn't succeed. There was a new something called Economic
18 Active Entities that was introduced for CIT because CIT
19 compliance is bad. So when the Economic Active Entity was
20 introduced as a definition it pushed CIT compliance to
21 around 40% from around 12, it push it to there. And our
22 argument was –

23 PROF KATZ: Sorry, Doctor, these
24 definitions are contained where?

25 DR MALOVHELE: There's a document that we

<p style="text-align: right;">Page 885</p> <p>1 have produced with these definitions, but this definition, 2 the Economy Active, you know, there was a memo that was 3 prepared and presented to Exco to say, you know, approve 4 this because it ups, I don't know whether they told that it 5 ups the number, but we knew that this is misrepresentation. 6 This definition, you know, is misrepresenting the true 7 state of compliance. 8 MS STEINBERG: Can I stop you a moment? 9 I think the answer to your question is in the Auditor- 10 General's reports. So the Auditor-General quotes section 11 66.1 of the Income Tax Act and then Government Gazette 12 which has gazetted definitions of strategic measures and 13 how you do them. So there are regulations – 14 PROF KATZ: So it is legislative. 15 MS STEINBERG: It's legislated right, 16 their regulations which I'm sure Dr Malovhele is well aware 17 of. And what the Auditor-General finds, so it gives that 18 as the basis of measurement. What the regulations say this 19 is how you must measure. One finds they were not measured 20 in that way and it led to an overstatement. 21 [15:04] So he says, "as part of our completeness testing 22 we noted that the following taxpayers were excluded from 23 the returns required, the denominator, taking into account 24 the economically active definition. However, the taxpayers 25 were claiming VAT payments and refunds throughout that same</p>	<p style="text-align: right;">Page 887</p> <p>1 COMMISSIONER: And has anything been done 2 in consequence of this auditor-general's report to correct 3 it? 4 DR MALOVHELE: There's now an agreement 5 that our indicators and our measures are the ones that SARS 6 is going to comply with going forward. 7 MR KAHLA: So you're suggesting that the 8 new definitions have now been discarded, those definitions 9 around economically active - 10 DR MALOVHELE: Ja, they don't make sense 11 because like the question that I ask, why do you have 12 economic active entities for CIT and not for VAT and not 13 for Pay as you Earn. We need to be consistent. 14 MR KAHLA: So you now revert to the 15 status quo. 16 DR MALOVHELE: Ja, we reverted to say 17 what does legislation say. 18 MR KAHLA: Please help me now. This 19 misrepresentation in the, on the results in respect of the 20 annual performance plan did it have any benefit for anyone? 21 Did this have any impact around determinations of bonuses 22 or so that get paid to individuals or does it have no 23 bearing at all? 24 DR MALOVHELE: I don't know. 25 PROF KATZ: Sorry, but through you,</p>
<p style="text-align: right;">Page 886</p> <p>1 year. Based on the legal requirements these companies are 2 legally required to submit corporate income tax returns and 3 therefore should form part of the returns required used to 4 determine the percentage CIT filing compliance indicated 5 calculation as reported in the annual performance report 6 but were not." 7 So the impact is non-compliance with laws and 8 regulations when defining an indicator for percentage of 9 CIT filing compliance. And the result is overstatement. 10 And there's a very similar story in PIT where there's an - 11 it's reported that 91.14% of people did file and the 12 auditor-general just found this to be wrong. He says the 13 risk here is that the indicator is overstated and again the 14 regulations on how you measured were flouted. Now, that's 15 correct, yes? 16 DR MALOVHELE: That's correct, yes. 17 MS STEINBERG: Now, the affidavit I have 18 explains how Dr Malovhele and Ms Singh warned people that 19 this was happening. They warned certain individuals that 20 they were not using the proper measures but their warnings 21 were not heeded and this is the result. 22 COMMISSIONER: When did the auditor- 23 general report? 24 MS STEINBERG: So the report is 21st of 25 March 2017.</p>	<p style="text-align: right;">Page 888</p> <p>1 Chair, Doctor, this raises some very serious issues. 2 Number one, why was the regulations amended at all, to 3 achieve what? Two, the non-compliance even with the 4 amended, three, does all of this protect any non-compliant 5 taxpayers? 6 DR MALOVHELE: Maybe some people can 7 answer those questions because I don't know why it was 8 done. 9 PROF KATZ: I think we need to know why 10 the definitions were amended. 11 DR MALOVHELE: Ja. 12 PROF KATZ: That's the starting point of 13 it. Then why the non-compliance with that? Then what was 14 the objective of non-compliance, just to protect SARS as a 15 body or individual non-paying taxpayers? 16 DR MALOVHELE: Ja, I don't know. 17 MR KAHLA: But we know who made the 18 decision around these new definitions and which had this 19 impact. 20 DR MALOVHELE: Ja. 21 MR KAHLA: Who made them? 22 MS STEINBERG: No. 23 MR KAHLA: Is that part of - 24 MS STEINBERG: Ja, I think let's keep 25 that in camera. If I may suggest this might warrant a full</p>

<p style="text-align: right;">Page 889</p> <p>1 in camera interview with the appropriate people but I think 2 it's important for the commission and the public to be 3 aware of the consequence of closing down this unit, one of 4 the consequences.</p> <p>5 COMMISSIONER: Are you saying because the 6 deponent there, the person concerned is not willing to say 7 it publicly? Is that what your concern is?</p> <p>8 MS STEINBERG: Well, there's that and 9 that's my undertaking to the deponent. But secondly I 10 think before people are named in public there should 11 perhaps be some protecting of the evidence.</p> <p>12 COMMISSIONER: No, I agree with you but 13 I, but the deponent also says I don't want, I'm not going 14 to tell you anything unless you tell me that you'll keep 15 this confidential.</p> <p>16 MS STEINBERG: Yes, which is why this 17 affidavit won't be on the website.</p> <p>18 DR MALOVHELE: I think the other thing 19 that the commission must be aware of, there are some within 20 the organisation who believe that you can improve 21 compliance by working the numbers and my view is you can't. 22 Go and collect those returns. So you can't improve 23 compliance by working the numbers or changing definitions 24 because the taxpayer who is non-compliant feels nothing.</p> <p>25 MR KAHLA: So working the numbers</p>	<p style="text-align: right;">Page 891</p> <p>1 is that the delay in reconstituting the team has caused, 2 well, has caused personal stress to me but has also caused 3 personal stress to Ms Singh who one day came to me and 4 said, Thabelo, I've resigned. I said do you have a job. 5 She said no, I don't have a job. And then she resigned. 6 And for me -</p> <p>7 COMMISSIONER: Resigned? 8 DR MALOVHELE: Ja. And it was a loss for 9 the organisation. And that's one thing that was very 10 painful for me.</p> <p>11 MS STEINBERG: She's clearly an 12 extraordinary, skilled, experienced person.</p> <p>13 DR MALOVHELE: Ja. 14 MS STEINBERG: So you'll have to 15 reconstitute your unit without her at this stage. Dr 16 Malovhele has given recommendations as to re-establishing 17 this unit. I don't think we need to go into them now. But 18 we do have them as part of his submission and I'm sure it's 19 what you've been presenting to the SARS leadership as well 20 and they are very clear recommendations. Ms Singh also has 21 some recommendations. There are just two more statements 22 I'd like to make reference to.</p> <p>23 The one is from Ms Firdous Sallie and she's a 24 group executive of direct channels and she's responsible 25 for the contact centre. And she says that, "Since one of</p>
<p style="text-align: right;">Page 890</p> <p>1 effectively by manipulating the information.</p> <p>2 DR MALOVHELE: Ja, because you can 3 manipulate, ja, you can manipulate the denominators and all 4 that stuff and improve compliance.</p> <p>5 PROF KATZ: But this goes, sorry, Doctor, 6 to so many things. I mean, it impacts on the budgeting of 7 tax for future periods. If you're not starting with proper 8 figures it goes to perhaps that's an explanation why you 9 didn't collect what you should've. I mean, this is really 10 a very serious - then does it protect the organisation? 11 Does it protect individual non-paying taxpayers? And can I 12 just ask here or the materiality of all of this? Are you 13 able to -</p> <p>14 MS STEINBERG: I don't think I'm in a 15 position at this stage. Clearly it puts, paints the 16 organisation in a better light.</p> <p>17 COMMISSIONER: It may also help certain 18 non-paying taxpayers.</p> <p>19 MS STEINBERG: I don't know that. That's 20 what we'd have to explore.</p> <p>21 COMMISSIONER: And it's on corporate and 22 personal.</p> <p>23 MS STEINBERG: Yes, two findings. Is 24 there anything else you'd like to say, Dr Malovhele?</p> <p>25 DR MALOVHELE: I think what's unfortunate</p>	<p style="text-align: right;">Page 892</p> <p>1 my responsibilities includes feedback from taxpayers I want 2 to share direct feedback regarding the reluctance from 3 taxpayers to comply with their tax obligations." Now, what 4 she does is she - the call centres, all the calls are 5 recorded. As part of her job she listens in, you know, 6 arbitrarily to see what's going on.</p> <p>7 And she says a number of taxpayers when called 8 regarding their debt to the fiscus have indicated that they 9 will not fulfil their obligations and that they will only 10 fulfil their obligations to settle their debt and they've 11 given three reasons she says. One, once the Tom Moyane 12 case is finalised. Two, when SARS' credibility is restored 13 and three, when the President has addressed the levels of 14 corruption in the country.</p> <p>15 Now, this is what she hears. These are your 16 ordinary taxpayers. They're not your big corporates. 17 These are your ordinary South Africans and she's repeatedly 18 hearing this as the contact centre. And I think it's 19 important to show the correlation between the slides that 20 we're going to see of this downward trend and this 21 anecdotal evidence of what the South African public is now 22 saying and experiencing and how it's impacting on 23 compliance.</p> <p>24 PROF KATZ: And compliance is really two 25 things, a) not filing returns and that and b) not paying</p>

<p style="text-align: right;">Page 893</p> <p>1 what you are assessed to pay.</p> <p>2 MS STEINBERG: Yes, and she says it would</p> <p>3 appear that the payment compliance levels have dropped to</p> <p>4 between, have dropped to 7% in quarter 1 of the 2018/2019</p> <p>5 financial year. So she's also flagging this as a crisis, a</p> <p>6 compliance crisis in SARS. Before you present your slides</p> <p>7 the final affidavit I'd like to mention, we know that Bain</p> <p>8 and the SARS team did not consult with Dr Malovhele or Ms</p> <p>9 Singh but they did consult with Mr Thinus Marx who although</p> <p>10 now is a principal specialist and has been at SARS since</p> <p>11 1974 I must say at the time was the group executive</p> <p>12 responsible for compliance. So I presume he was your boss.</p> <p>13 Is that right?</p> <p>14 DR MALOVHELE: No, no, no, he was</p> <p>15 responsible for the collection of -</p> <p>16 MS STEINBERG: Right.</p> <p>17 DR MALOVHELE: You know, returns or the</p> <p>18 compliance, the small E that was happening but I was in the</p> <p>19 strategy and risk division before the operating model.</p> <p>20 MS STEINBERG: Right. He says that the</p> <p>21 SARS operating model review, there's that page that Dr</p> <p>22 Carolissen read out where he says who was consulted. He</p> <p>23 says, states that I formed part, "I, Mr Marx, formed part</p> <p>24 of Bain's primary research and that I was interviewed. On</p> <p>25 the face of it the statement seems to suggest that I was</p>	<p style="text-align: right;">Page 895</p> <p>1 think it's just four or five slides.</p> <p>2 PROF KATZ: Sorry, just before with your</p> <p>3 permission, Advocate Steinberg, those auditor-general -</p> <p>4 MS STEINBERG: Yes.</p> <p>5 PROF KATZ: Are they public?</p> <p>6 MS STEINBERG: They are. The auditor-</p> <p>7 general's report is a public document as far as I know.</p> <p>8 PROF KATZ: So what impact has that had</p> <p>9 on treasury, ministers?</p> <p>10 MS STEINBERG: I think we'll have to put</p> <p>11 that question to them when they come.</p> <p>12 PROF KATZ: Very much so.</p> <p>13 MS STEINBERG: Yes.</p> <p>14 PROF KATZ: Before we go into the slides</p> <p>15 if I may just ask you, you mentioned earlier but it may not</p> <p>16 be in your field, what I as a layman called lifestyle</p> <p>17 investigations do you, does that fall into your field at</p> <p>18 all?</p> <p>19 DR MALOVHELE: No, no, it falls in</p> <p>20 enforcement. Just some of the things that we were talking</p> <p>21 about I just want to show you here.</p> <p>22 COMMISSIONER: Can we not see it down</p> <p>23 here as well?</p> <p>24 MS STEINBERG: We don't seem to have our</p> <p>25 IT person here.</p>
<p style="text-align: right;">Page 894</p> <p>1 meaningfully consulted and engaged. I wish to state that I</p> <p>2 was not meaningfully consulted nor engaged in the process</p> <p>3 of developing the new operating model."</p> <p>4 And then he explains in some detail the</p> <p>5 consultation process and complains about the superficiality</p> <p>6 of it and that objections raised were brushed aside. And</p> <p>7 there's some detail going into that. And I see I'm wrong</p> <p>8 in the reporting line but I think what we've certainly</p> <p>9 heard from this witness is what seems to be a lack of</p> <p>10 understanding of an important function in this organisation</p> <p>11 that was then just forgotten about. Perhaps -</p> <p>12 COMMISSIONER: Well, ignored is better</p> <p>13 because he did raise it.</p> <p>14 MS STEINBERG: Ignored.</p> <p>15 DR MALOVHELE: I agree. And I agree with</p> <p>16 the statements of Mr Marx because we worked very closely</p> <p>17 and we would talk a lot about outstanding returns and what</p> <p>18 they used to do previously and what is missing at the</p> <p>19 moment.</p> <p>20 COMMISSIONER: Carry on.</p> <p>21 MS STEINBERG: He too complains to your</p> <p>22 point, Judge, of sending emails, raising issues, raising</p> <p>23 the flags and it being ignored. I had asked you just to</p> <p>24 prepare a few slides because I think it's very important to</p> <p>25 show the graphic illustration of the compliance trends. I</p>	<p style="text-align: right;">Page 896</p> <p>1 COMMISSIONER: Shall we just go and sit</p> <p>2 there?</p> <p>3 MS STEINBERG: I think so. Take a - oh,</p> <p>4 oh, here. Can you make it come up on the screen?</p> <p>5 COMMISSIONER: While they're doing this</p> <p>6 may I just ask you, you know, we've referred to principal</p> <p>7 specialist and domain specialists. I understand there's</p> <p>8 actually no difference between them. It just happens that</p> <p>9 people at different salary levels -</p> <p>10 DR MALOVHELE: Ja, if you were a group</p> <p>11 executive -</p> <p>12 COMMISSIONER: Then you would be a -</p> <p>13 DR MALOVHELE: You became a principal</p> <p>14 specialist. If you were an executive you became a domain</p> <p>15 specialist. If you were a senior manager then you become,</p> <p>16 you became a generic -</p> <p>17 COMMISSIONER: Ja.</p> <p>18 MR KAHLA: And there would've been no</p> <p>19 changes to your benefits and remuneration.</p> <p>20 DR MALOVHELE: There's no change to</p> <p>21 benefits. It's just change to - you don't have work to do</p> <p>22 except if you find something to do.</p> <p>23 MR KAHLA: Okay.</p> <p>24 COMMISSIONER: Shall we just go and sit</p> <p>25 down there?</p>

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1 DR MALOVHELE: Okay, now this slide is
 2 just showing the growth in the register to say, you know,
 3 we have seen the growth in the register but the growth is
 4 like slowing down. It may be because of the economic
 5 situation in our country. I think the interesting slide
 6 would be this one. This is the filing. Now, the block,
 7 the green block there, okay, let me explain this. When we
 8 measure filing we look at filing on time, filing late and
 9 non-filing.
 10 Now, then if you add filing late and filing on
 11 time you get a filing rate. Now, what you are looking at
 12 here is the filing rate which includes, is the filing rate
 13 which includes late and on time. If you look at it you
 14 will see that there's a general decline in filing. Now,
 15 the block there is just showing that is before the tool was
 16 developed so SARS was blind to that picture and then after
 17 the tool was developed this is what, you know, we could see
 18 and then we could manage. Now, the blue at the bottom,
 19 that's the filing rate of your companies. That's how low
 20 it is. Now, the economic active definition -
 21 COMMISSIONER: Sorry, what do you mean by
 22 filing rate?
 23 DR MALOVHELE: The filing rate is the
 24 taxpayers who filed on time and filed late.
 25 COMMISSIONER: Okay.

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1 DR MALOVHELE: Within a year, you know.
 2 MS STEINBERG: The taxpayers who filed at
 3 all.
 4 DR MALOVHELE: They filed, ja.
 5 COMMISSIONER: Ja.
 6 MS STEINBERG: It's at 13.9%.
 7 COMMISSIONER: 13.9 of what?
 8 DR MALOVHELE: That's 13.9% of CIT
 9 taxpayers who submitted their returns on time and late.
 10 Now, the reverse it's saying they are not filing.
 11 [15:24] COMMISSIONER: Are you saying, sorry are
 12 you saying the tax clear 80 is 67% or something. No, let
 13 me I don't understand. 13% of what, he said 13% of CIT -
 14 DR MALOVHELE: We needed to have 100% of
 15 returns, say you had 100 returns that you need to be filed.
 16 COMMISSIONER: In other words you've got
 17 100 registered CIT payers.
 18 DR MALOVHELE: Ja.
 19 COMMISSIONER: And then 13% file?
 20 DR MALOVHELE: No, here we are using the
 21 returns.
 22 COMMISSIONER: Yes.
 23 DR MALOVHELE: There were, and in fact
 24 here we can be direct to say we've got CIT. We had 100
 25 companies that needed to submit returns but only 13.9. No,

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1 no -
 2 PROF KATZ: And the 100 that needed to
 3 are because they registered?
 4 DR MALOVHELE: Ja, registered.
 5 PROF KATZ: That's what you mean by need
 6 to.
 7 DR MALOVHELE: Ja, needed to submit their
 8 returns but only 13.9% submitted the return which means the
 9 rest did not submit return in that year.
 10 MS MASILO: So does it follow that the
 11 fact that the rest didn't submit the returns, they didn't
 12 pay either?
 13 DR MALOVHELE: Why will they pay?
 14 MS MASILO: Okay.
 15 DR MALOVHELE: And even auditing them.
 16 MS MASILO: There's no basis to audit.
 17 DR MALOVHELE: There's no basis really
 18 because the return is not in.
 19 MS STEINBERG: Something we should
 20 perhaps factor in, you can please comment is one of the
 21 witnesses I interviewed said that another function that got
 22 ignored in the new operating model was the department that
 23 deregisters companies. So now if you want to deregister
 24 your company you can't because there's no one who does
 25 that. So some of that might be accounted for by the fact

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1 that there are companies that should be deregistered but
 2 are not.
 3 DR MALOVHELE: Yes.
 4 PROF KATZ: And are you able to make any
 5 assessment of, you can't make any assessment of that, I
 6 suppose?
 7 DR MALOVHELE: Of?
 8 PROF KATZ: How many companies are in
 9 your 86% that in fact are defunct and they should be
 10 deregistered.
 11 DR MALOVHELE: You could because when you
 12 use the system you can then go and select, say you want to
 13 see those that are in deregistration, active, suspended or
 14 active. But here I'm showing the picture of active.
 15 PROF KATZ: Active, you mean these are
 16 not liable to be deregistered at all?
 17 DR MALOVHELE: These ones, these are
 18 active.
 19 MS STEINBERG: Oh okay.
 20 PROF KATZ: But with respect liable to be
 21 deregistered you've got a very easy correlation, you go to
 22 CIPC and see whether they've been deregistered there. If
 23 they're still alive with CIPC they should be -
 24 DR MALOVHELE: There's an exercise that
 25 was done to try to get rid of those that are not active, we

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1 put them aside. In fact when we did that we were trying to
 2 answer your question. You may hear about this because when
 3 you talk about these things some people would then say to
 4 you no, no, the tax register is not clean. So the CIT tax
 5 register was clean and when it got clean there was no
 6 change. Now the picture remained, you know -
 7 PROF KATZ: Sorry, but Doctor, what does
 8 non-active mean?
 9 DR MALOVHELE: Non-active could be that
 10 you know you are there you are not doing anything. There's
 11 no business.
 12 PROF KATZ: You're a dormant company, ja.
 13 DR MALOVHELE: Nothing, you just went and
 14 register at CIPC for the -
 15 MR KAHLA: No trading.
 16 DR MALOVHELE: There's no trading.
 17 There's nothing, no activity is happening.
 18 MS MASILO: So since these are active
 19 companies would SARS then resort to raising estimated
 20 assessments when they fail to file their returns?
 21 DR MALOVHELE: My thinking in terms of
 22 dealing with these things, they could make a call, call
 23 these people and then if they are not responding then raise
 24 assessment. But from my interaction with my enforcement
 25 colleagues SARS is very reluctant to do those assessments.

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1 COMMISSIONER: Why?
 2 DR MALOVHELE: I don't know.
 3 MS MASILO: But is that not the other way
 4 of forcing them to file because you raise estimated
 5 assessments and then they have to file the return if
 6 their -
 7 DR MALOVHELE: We should be doing that as
 8 a way of managing this.
 9 COMMISSIONER: Yes.
 10 DR MALOVHELE: I mean what I know is that
 11 we do have tools that we can apply to improve this
 12 situation. As to why are we not employing those tools,
 13 heavens knows.
 14 MS MASILO: Last question, does this
 15 include your LBC clients, the whole CIT?
 16 DR MALOVHELE: Ja, this is the whole.
 17 When you separate this, then the picture changes. In the
 18 LBC the compliance is higher but with your small and medium
 19 the compliance is lower.
 20 MS MASILO: Okay.
 21 DR MALOVHELE: Okay, so that's the
 22 picture and even this picture you see your VAT is
 23 declining. From 2012/13 it was 68.1. Today as we, you
 24 know okay end of the year it was 61.2. Same thing with Pay
 25 as you Earn, from 80 now to 69 and then the top one is,

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1 your personal income tax. And I want to just look at this
 2 picture to see, we see these are the people who have
 3 submitted returns, but this is the payment rate, on time
 4 payment. But if you look at the on time payment you see
 5 that when a return is submitted the likelihood of getting
 6 payment is higher, which therefore says SARS get the
 7 returns because the likelihood of receiving payment on this
 8 return is high.
 9 PROF KATZ: Sorry Doctor, this is purely
 10 numerical, there's no financial, there's no monetary -
 11 DR MALOVHELE: No, no, we didn't look at
 12 the monetary -
 13 PROF KATZ: Purely numerical.
 14 DR MALOVHELE: Ja.
 15 PROF KATZ: So do you have any feel for
 16 the correlation between this and the financial implication?
 17 DR MALOVHELE: The financial implications
 18 if we go back to that declining trend, it just says the
 19 return that you are not getting, there's no money.
 20 PROF KATZ: Yes, but I'm trying to
 21 quantify that. So if we look at the so-called non-
 22 collected taxes in the last year, the 50 billion, how much
 23 of that could be attributable to this kind of conduct?
 24 DR MALOVHELE: I would say, it is
 25 difficult to estimate that but a big chunk is there.

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1 PROF KATZ: So therefore the thing about
 2 the bad economy and that is really reduced, it's really
 3 non-compliance.
 4 DR MALOVHELE: I don't buy that story. I
 5 don't buy that story because the economic gives you
 6 everything it can and Parliament gives you the legislation
 7 to extract what you can. Now then there's a tax policy and
 8 then there is an internal factors, your efficiencies
 9 internally, and then the behaviour of taxpayers. So it is
 10 not the economy that collects outstanding returns.
 11 PROF KATZ: Sure.
 12 DR MALOVHELE: It is SARS that collects
 13 outstanding returns. So that story for me, I hear it but I
 14 don't buy it.
 15 PROF KATZ: But I mean the state of the
 16 economy has almost no relevance to these -
 17 DR MALOVHELE: No, it doesn't. This is
 18 SARS. Okay, so this is just the payment rate. Our payment
 19 rate is very high and therefore we need to collect the
 20 returns, okay? And then the other slide, this is just to
 21 show the, if you look at the red, you see how bad these
 22 things, the red is non-filing. Your CIT filing last year
 23 are sitting at 86%. These are returns that are not in.
 24 For PIT 20%, for VAT we're sitting at 39 non-filing.
 25 That's the money that belongs to SARS. Pay as you Earn we

<p style="text-align: right;">Page 905</p> <p>1 are sitting at 31 not filed. That's money that belongs to 2 SARS. I just want to show you another slide here – 3 PROF KATZ: Sorry, just stop there, 4 forgive me Doctor. So if one were to superimpose this on 5 the tax gap it would also tell a very big story. 6 DR MALOVHELE: This is the tax gap. 7 PROF KATZ: Yes, well this is a tax gap 8 in numbers not money but I would think there's quite a high 9 correlation. 10 COMMISSIONER: Well I just, I was 11 corrected earlier, this is not the tax gap, these are 12 registered taxpayers. 13 DR MALOVHELE: These are registered 14 taxpayers, these are – 15 COMMISSIONER: There may be a lot more 16 unregistered taxpayers you don't know about, which tells 17 you where the tax gap is 18 DR MALOVHELE: Those that are not 19 registered, yes. 20 COMMISSIONER: But these are registered 21 taxpayers and non-compliant registered taxpayers. 22 PROF KATZ: Sorry what the Judge is 23 saying is that tax gap is even higher than this because – 24 DR MALOVHELE: Ja if you include those 25 that are –</p>	<p style="text-align: right;">Page 907</p> <p>1 DR MALOVHELE: It is worse. So I just 2 wanted to show the commission that this is the kind of the 3 situation that we have. And even if you look at the 4 payment rate, 94.7% that's the, those that are paying is 5 higher, but those that are filing they are lower. So we 6 could manage this as an organisation. Okay, this slide 7 Advocate, I just prepared, this is the slide that I 8 prepared for those who were pushing back. They are saying 9 Thabelo what you are telling us is not true. Then I 10 prepared them the slide to say the economy gives us 11 everything that it can produce. Whether it is not 12 performing well or what but it will give us what it can. 13 So that's the tax compliance chain, registration, filing, 14 declaration, payment. You see where the revenue pool is? 15 PROF KATZ: Ja. 16 DR MALOVHELE: It's at the end. In fact 17 I say to people money walks in at SARS. The money that we 18 collect through enforcement is very, very limited. The 19 bulk of the money walks in. Why? Because there's 20 compliance there. Now I also showed the colleagues of mine 21 to see, you see under the registration filing declaration 22 payment and deregistration, there are leakages there. Non- 23 registration, non-filing, non-declaration, non-payment, 24 non-deregistration, those present leakages so the more you 25 have leakages the less you will have in your pool.</p>
<p style="text-align: right;">Page 906</p> <p>1 PROF KATZ: To include non-registered, 2 but – 3 DR MALOVHELE: But the quickest we can 4 look at is this. 5 PROF KATZ: Yes. 6 DR MALOVHELE: Okay, just look at this 7 picture. I took VAT for 2017/18. We had 4.4 million 8 returns that were required but the returns that were filed 9 were 2.7. That's 61.2% of returns were filed, but we had 10 4.4 million returns that were supposed to be file. And 11 then out of the 2.7 million that were filed where there was 12 a liability it's 1.8 million returns. And where we 13 received payment is 1.7. But however we should be pushing 14 these, we don't need this triangle. We should be pushing 15 at wider. So I prepared this slide just to show you that 16 we got this shrinking base and this is not the economy. 17 PROF KATZ: The shrinking base has a dual 18 implication, not only is it what it says, the shrinking 19 base but in a VAT system where it works on a value chain, 20 where it's even worse what it does to the system because it 21 add on throughout the supply chain. 22 DR MALOVHELE: Ja. 23 PROF KATZ: So when there's a break in 24 any one its destructive of the, so it's even worse the 25 picture than that.</p>	<p style="text-align: right;">Page 908</p> <p>1 PROF KATZ: As I say, sorry just to get 2 to your view, it's worse than, if you've got a supply chain 3 and VAT, if there's a gap of registration in the middle of 4 the supply chain, it distorts the totality of it. It's not 5 only what you've measurably lost on a, you don't know what 6 it's doing to the whole system. That's how VAT works. 7 DR MALOVHELE: Ja, so anything that is 8 outside of that value chain, that is supposed to be you are 9 losing out of it. So then the question that I also raised 10 earlier, I ask tell me, because you are pushing back. You 11 are saying, in fact they were punting, you are doctors, 12 there's a lot of doctors so now tell us. So I said tell me 13 where's your registration strategy? There isn't. Where is 14 your filing strategy? There isn't. Fortunately we have 15 worked on one, that's being implemented at the moment. The 16 declaration strategy, people do have their audit strategy 17 but it's not all encompassing. Payment strategy, we have a 18 debt strategy but in my view a debt strategy is not a 19 payment compliance strategy, it's just a debt strategy. So 20 I'm saying let's have a payment compliance strategy from 21 end to end and we manage our payment compliance. The same 22 thing with deregistration. Prof, you mentioned about 23 deregistration, we're not doing well in that space. We 24 should be deregistering entities that we no longer need in 25 the system but we're not doing that and so, and then the</p>

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1 compliance intervention we have a compliance model at SARS
 2 that looks at education, service and enforcement.
 3 PROF KATZ: Someone really should be an
 4 exercise of de-registrations on your register and de-
 5 registrations on the company's office register just to see,
 6 the two should correlate.
 7 DR MALOVHELE: I think you are right when
 8 you said should.
 9 COMMISSIONER: Anyway, ja.
 10 MS STEINBERG: But Doctor, to take you
 11 back to the beginning, because I think we need to end. If
 12 I understand the value of the model that you spent those
 13 years designing, is that you can look at these figures and
 14 actually work out in some detail who is not filing, which
 15 sectors of the economy are particularly responsible? You
 16 can get down to quite a granular level using the model you
 17 developed.
 18 DR MALOVHELE: We can do a lot more. In
 19 fact you know I was talking to Ms Singh to say if we were
 20 not dismantled we would be very far with informing the
 21 organisation in a very granular way as to what do you need
 22 to do? Because we can even go to an office, you said in
 23 your office these are your taxpayers, this is what's
 24 happening and we can start from there. But there's no
 25 compliance strategy at SARS as we speak.

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1 COMMISSIONER: But why was it dismantled?
 2 DR MALOVHELE: I want to know.
 3 COMMISSIONER: Well I want to know. You
 4 want to know, we both want to know.
 5 DR MALOVHELE: I don't know.
 6 PROF KATZ: You can add me to that too.
 7 COMMISSIONER: Have you asked someone in
 8 Exco why did you dismantle it?
 9 DR MALOVHELE: No one spoke to me. We
 10 were just told this part there, this part there, this one
 11 we will tell you. No one.
 12 MS STEINBERG: I can tell you what people
 13 have said in confidence and you don't even have to comment.
 14 That Dr Malovhele was somehow seen as in some way aligned
 15 with some of the old leadership of SARS.
 16 PROF KATZ: Okay, and therefore don't
 17 listen to him.
 18 MS STEINBERG: That's, I've been told
 19 that many times. That's all I can say to answer the
 20 question.
 21 DR MALOVHELE: No from the grapevine I
 22 also heard that. But I don't know what it means.
 23 COMMISSIONER: Okay, let's leave the
 24 grapevine.
 25 MS STEINBERG: Well let's leave the

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1 grapevine. It's not only a grapevine. We do have
 2 statements, but –
 3 COMMISSIONER: No, okay, it's a very big
 4 grapevine but it's a grapevine.
 5 MS STEINBERG: Okay. Is there anything
 6 else you need to add?
 7 DR MALOVHELE: The, going forward, SARS
 8 need to look inside as to what do we need to do? Because
 9 in my mind, I'm not sure if I'm just over-simplifying this.
 10 I see that these are simple basic things that we as a tax
 11 administration should be doing and doing them effectively
 12 and then we can manage compliance. I think that's what I
 13 can say.
 14 DR KATZ: Sorry, can I just ask, Doctor,
 15 it's quite important to our terms of reference to remedy,
 16 let's elaborate, if tomorrow morning people wanted to start
 17 rectifying all of this, what would happen?
 18 DR MALOVHELE: I spoke to the acting
 19 Commissioner and I said to him you need to start managing
 20 the compliance value chain.
 21 [15:44] You need to ask from your Exco as to who is
 22 responsible for any part that relates to registration and
 23 you put those people together and say I want you to tell me
 24 what you are doing with regard to registration, whether
 25 you're doing education, service or a postman, put them

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1 together and then come up with a strategy what are you
 2 going to do because I am going to monitor the impact on
 3 registration compliance. Then move to filing, who amongst
 4 my Exco members are responsible in any way with filing
 5 compliance. Come together, sit and work together and come
 6 up with a filing compliance strategy. All along that value
 7 chain and I said to him what is, when you sit with them
 8 just ask them where are we, where are we, where are we then
 9 we would be managing that. So then, that's one part.
 10 Secondly I said to him you have four strategy areas in this
 11 organisations you must collapse them into one. You can't
 12 have strategy in strategy and have strategy in BAIT and
 13 strategy in customs and strategy in enforcement, in one
 14 organisation. Collapse all these strategy units into one
 15 unit so that you can manage this thing properly. Thirdly,
 16 I mentioned to him that you have three areas that are doing
 17 case selection, collapse them into one so that you manage
 18 this thing properly and then you also have cross
 19 utilisation of the resources. So I did mention to the
 20 acting Commissioner, because I had a meeting with him where
 21 we were discussing this disbanding of the compliance
 22 strategy unit and I said to him the impact of this it's
 23 been felt but going forward these are the things that we
 24 need to do.
 25 COMMISSIONER: Thank you very much. That

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1 has been very, very interesting and I really do thank you
2 for being willing to come and talk to us about it.
3 DR MALOVHELE: It's a pleasure.
4 COMMISSIONER: Thank you.
5 MS STEINBERG: Thank you, and again thank
6 you for the time you've put into this presentation. I
7 would also like to thank Ms Singh for an extremely valuable
8 affidavit. Judge can I make a housekeeping suggestion?
9 COMMISSIONER: Yes.
10 MS STEINBERG: We are supposed to hear
11 another witness now whose evidence is as extensive and as
12 important and I don't think anybody frankly, I think can
13 deal with it now. He's in the audience, perhaps I can talk
14 to him for a few minutes about other places where I think
15 we might have little gaps in the programme, if he can't fit
16 in we're going to have to sit and hear him but if he can
17 perhaps we -
18 COMMISSIONER: Sure.
19 MS STEINBERG: We can do that.
20 COMMISSIONER: Sure.
21 MS STEINBERG: So let's just take five
22 minutes.
23 COMMISSIONER: Okay.
24 [INQUIRY ADJOURNED]
25 .

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<p>2017 716:7 722:18,18 723:17 777:9 868:4 871:9 873:7 876:4 880:25 886:25 2017/18 709:12 721:5 835:8 840:3 906:7 2018 709:1 723:17 725:2 727:13 735:13 869:15 2018/2019 893:4 21 709:1 21st 886:24 22% 721:18 23 838:10 25 759:5 760:14 815:24 26 778:14 779:11 26% 840:11 27 747:17,22 834:23</p>	<p style="text-align: center;">7</p> <p>7% 738:24 893:4 70 716:4 764:12 834:23 837:21 70.6 862:14 700 794:17</p> <p style="text-align: center;">8</p> <p>80 898:12 902:25 80% 715:13 794:11 795:8 804:9 85 716:2 836:22 837:3 847:7,8 86% 900:9 904:23</p> <p style="text-align: center;">9</p> <p>9 790:18,22 835:8 90% 711:9 773:22 91.14 886:11 94.7 907:4</p>			
<p style="text-align: center;">3</p> <p>3 738:1 788:1 799:23 3.5 772:10 30 843:4 30% 750:2 781:20 3000 800:3 31 905:1 31% 835:8 32.2 716:7 34.8 716:7 35 759:4 36% 840:20 39 904:24</p>				
<p style="text-align: center;">4</p> <p>4 715:13 737:16 4.2 721:25 836:10 4.4 906:7,10 40 716:3 837:19 40% 836:14,18 884:21 4500 794:11,19 795:8 46% 721:17 47 838:6</p>				
<p style="text-align: center;">5</p> <p>5 737:16 780:22 5% 834:24 50 776:17 778:23 903:22 50% 716:1 836:22 837:4 500 715:13 5000 794:19 55 716:3 837:20 841:12 57 716:1 836:13 837:9 837:10</p>				
<p style="text-align: center;">6</p> <p>6.3 722:19 60% 724:19,25 600 794:17 61.2 902:24 906:9 66.1 885:11 67% 898:12 67.4 862:13 68.1 902:23 69 902:25</p>				