SARS
At Your Service

South African Revenue Service
Annual report 2003

SARS
At Your Service

Content

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MANDATE, VISION AND MISSION

Mandate

The South African Revenue Service Act, No 34 of 1997, gives the entity the mandate to perform the following tasks:

- Collect all revenues that are due
- Ensure maximum compliance with the legislation
- Provide a customs service that will maximise revenue collection, protect our borders as well as facilitate trade

Vision

To be an innovative revenue and customs agency that enhances economic growth and social development, and supports our integration into the global economy in a way that benefits all South Africans

Mission

To optimise revenue yield, facilitate trade and enlist new tax contributors by promoting awareness of the obligation to voluntarily comply with South African tax and customs laws, and providing a quality and responsive service to the public

STRATEGIC GOALS AND VALUES

Strategic goals

To give effect to the successful delivery of the SARS mandate, the following strategic goals have been adopted:

- Optimising revenue yield
- Providing excellent service
- Engaging in responsible enforcement
- Transforming our people and culture
- Transforming the business and building capability
- Promoting good governance

Our strategy for 2002/03 was underpinned by two key concepts:

- To do different things and
- to do things differently,

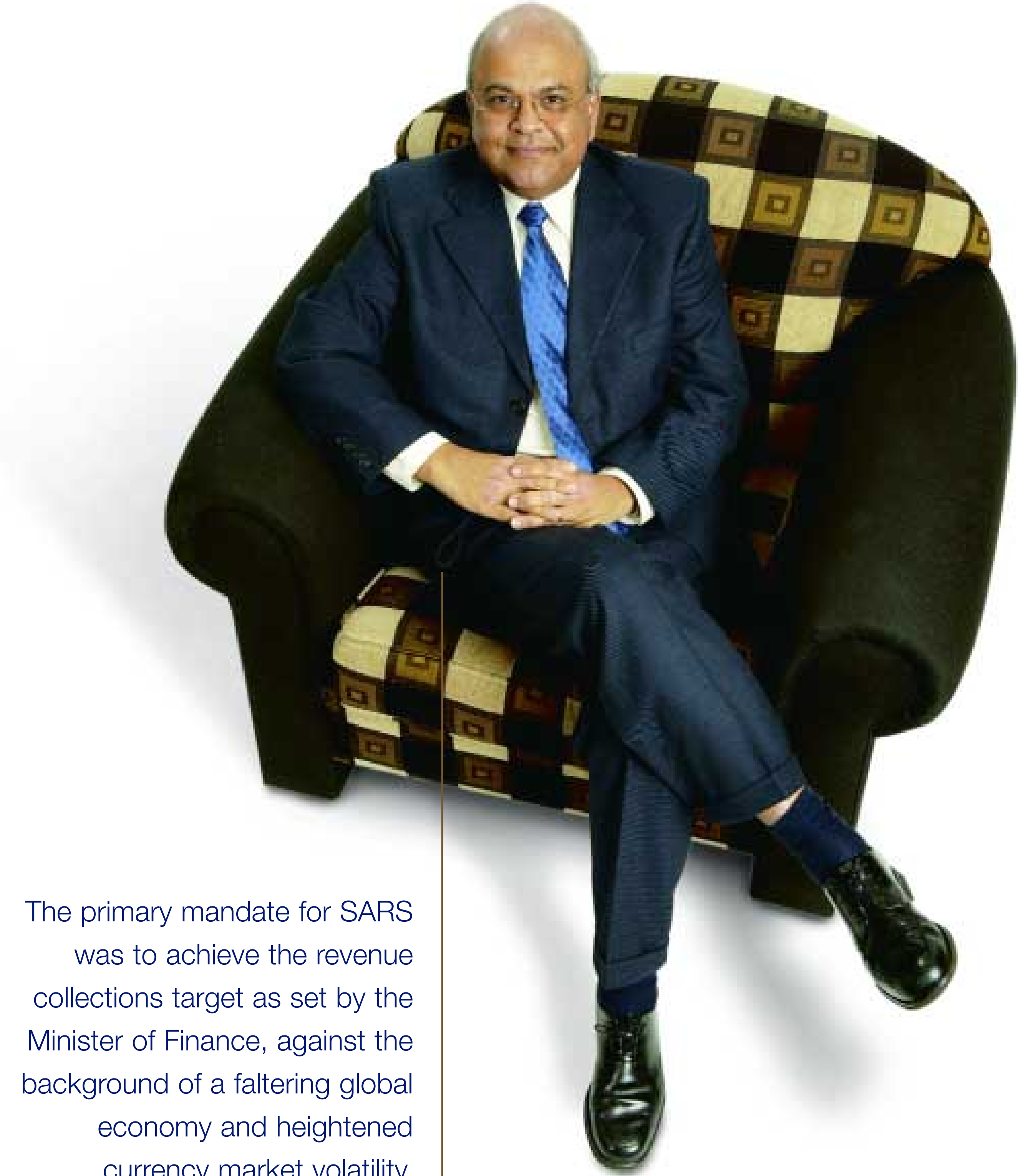
which sought to deliver on the twin objectives of successful organisational transformation and meeting operational targets.

Values

We are committed to providing excellent service to the public. Our relationships, business processes and conduct are based on:

- Mutual respect and trust
- Equity and fairness
- Integrity and honesty
- Transparency and openness
- Courtesy and commitment

COMMISSIONER'S REVIEW



The primary mandate for SARS was to achieve the revenue collections target as set by the Minister of Finance, against the background of a faltering global economy and heightened currency market volatility. To this end, the current period marked another year of robust revenue performance for SARS.

PRAVIN GORDHAN
Commissioner for the South African Revenue Service

COMMISSIONER'S REVIEW *(continued)*

As South Africa (SA) entered its ninth year of democracy, the challenge of sustaining our socio-economic stability and fostering developmental growth remains our key strategic priority. In this context, the role of the South African Revenue Service (SARS) was to support the country's developmental objectives through effectively achieving the revenue targets set by the Minister of Finance. For the current reporting period we were able to collect R282,2 billion.

This was achieved despite the severe downturn in global economic growth and its negative impact on the South African economy. The key success factors that contributed to our achievements in the past year included real economic growth, the continued roll-out of our institutional transformation process, deepening the culture of service excellence and an increased willingness by South Africans to become tax compliant.

The primary component that contributed towards the overall performance of SARS was a R8,8 billion increase in income tax receipts above the printed estimate. Further, the income received from value added tax (VAT) also exceeded the printed estimate by R3,9 billion. The fuel levies, excise duties, skills development levies and other taxes contributed a further R2 billion, increasing total tax receipts by R13,7 billion above the printed estimate. The revenue generated from customs duties lagged behind the printed estimates by R1,2 billion. The central challenge for SARS is to sustain these levels of performance through continual improvements in internal efficiency and enhanced tax compliance.

SARS adopted a more focused enforcement strategy to optimise revenue collection and manage overall compliance levels. This entailed developing risk-profiling capability, reducing the incidence of outstanding returns, gathering business intelligence and emphasising integrated field audits. The benefit of this approach was evidenced by an improved audit yield. Enforcement efforts were also supported by activities focused on identifying and profiling the nature and extent of the prevailing tax gap which then informed areas for intervention.

Customs faced the internal challenge to implement the Siyakha business process improvements, facilitate legitimate trade, curb illicit trade through a risk-based approach, service the accredited client base and effect critical infrastructure upgrade at border posts. Externally, Customs was tasked with implementing the various trade agreements and standards adopted internationally as stipulated by the World Customs Organisation (WCO) as well as influencing the WCO and regional trade dialogues.

In the past year SARS participated in numerous international forums to exchange cutting-edge knowledge and demonstrated best practices in tax administration. Recognising the increasing impact of the global village and communications and technology revolution, SARS actively participated in the Commonwealth Association of Tax Administrators (CATA) and WCO in fostering greater international cooperation. Closer to home, SARS focused on strengthening the critical role of New Partnership for Africa's Development (NEPAD) in promoting development on the continent and in terms of involvement at a regional level through the Southern African Development Community (SADC). In this respect, we hosted the All Africa Customs Conference to improve cohesion and cooperation of customs administrations on the continent. Our commitment is to build the capacity of continent-wide and regional tax and customs institutions and to encourage trade among member countries.

The pursuance of a world-class organisation is enshrined in our commitment to service excellence according to the principles of Batho Pele. SARS continued to build on and roll out the Siyakha programme ("We are Building"). During the year under review, we rolled out Siyakha in the Western Cape, which sought to build on the success of the KwaZulu-Natal implementation in the previous year. Notable process improvements included enhancement of frontline capability and improving the quality and turnaround of the outputs flowing from SARS's core processes. The Siyakha initiative sought to embed a service culture by focusing on what our customers want. It is underpinned by the philosophy, that good service facilitates tax compliance. SARS also established an independent service monitoring office (SMO) and dispute resolution mechanisms to improve service delivery to all South Africans. Further, the draft Taxpayer Charter has been released for comment and will be implemented in the forthcoming year.

The SARS Act, as amended, provides for greater oversight and accountability and provides for the establishment of advisory committees. SARS established two committees, a human resource advisory committee and an information technology (IT) advisory committee. The value add by these committees' raises the quality of oversight and internal control mechanisms. The Public Finance Management Act (PFMA) also provided for the establishment of an audit committee.

In implementing its compliance strategy, SARS was careful to adopt an appropriate balance between encouraging compliance and enforcing compliance. The compliance strategy applied must be relevant to the South African context. To this end SARS recognises the strategic imperative of sustaining revenue performance and building a robust modernised administration. Going forward, this translates into interventions directed at refining the current enforcement stance, addressing critical capability gaps, leveraging value-adding technology solutions and shifting organisational culture to greater levels of professionalism, productivity and service.

In conclusion, SARS extends its heartfelt thanks to the Minister and Deputy Minister of Finance for their active involvement, encouragement, clear direction and unwavering support. Also, I am personally grateful for the unfailing support and wisdom of the SARS management team and all SARS employees.

Pravin Gordhan
Commissioner for the South African Revenue Service

EXECUTIVE COMMITTEE

PRAKASH MANGREY
General manager:
Finance

KEN JARVIS
Chief Information Officer

KOSIE LOUW
General manager:
Law Administration

ITUMELENG MATSHEKA
General manager:
Human Resources

MFUNDO NKUHLU
General manager:
Strategy and Planning

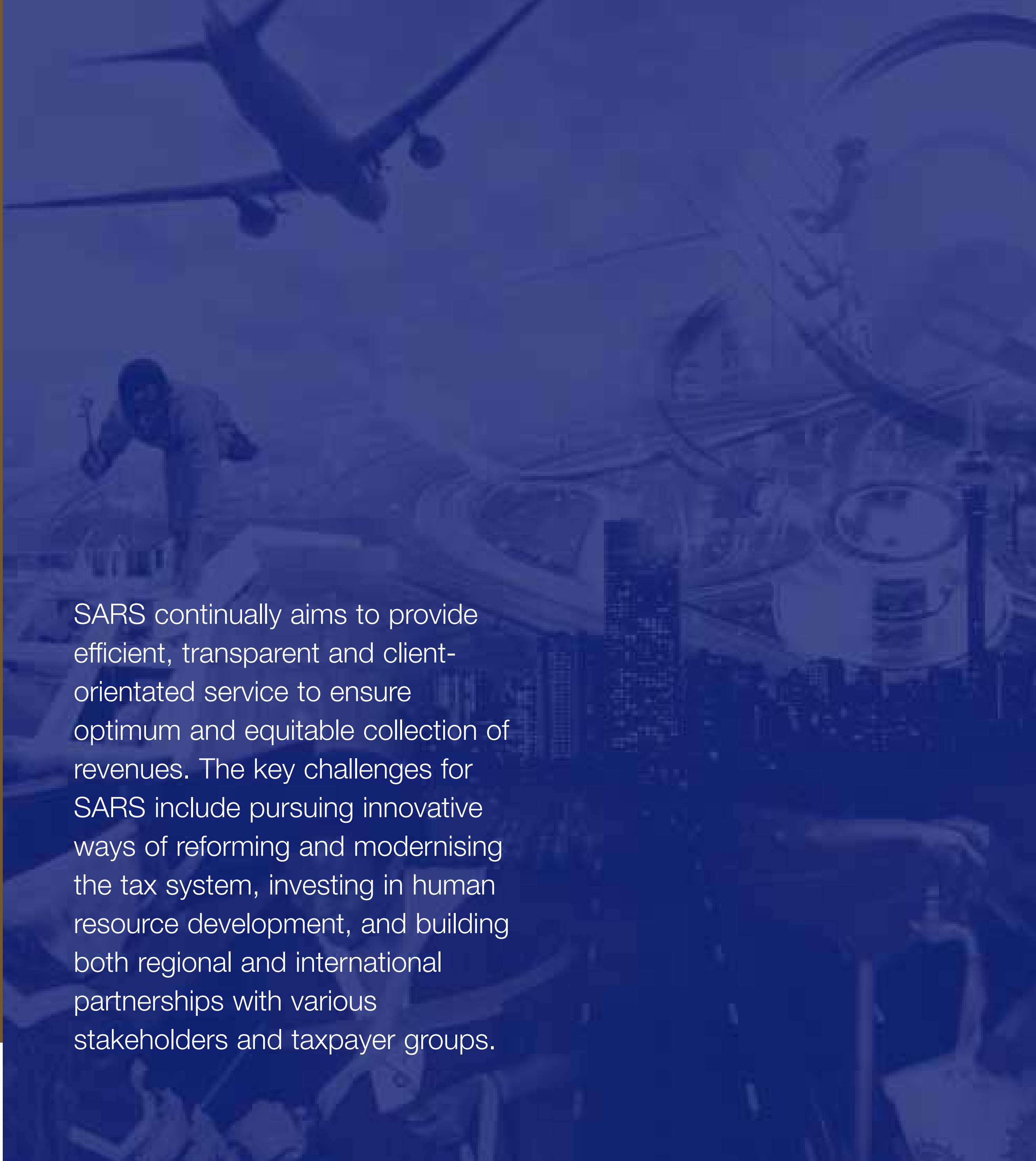
THINUS MARX
General manager:
Assessment

VUSO SHABALALA
General manager:
Customs

ANDILE PAMA
General manager:
Taxpayer Service

PRAVIN GORDHAN
Commissioner for SARS

IVAN PILLAY
General manager:
Enforcement



SARS continually aims to provide efficient, transparent and client-orientated service to ensure optimum and equitable collection of revenues. The key challenges for SARS include pursuing innovative ways of reforming and modernising the tax system, investing in human resource development, and building both regional and international partnerships with various stakeholders and taxpayer groups.

Revenue performance

REVENUE PERFORMANCE

For the current year SARS exceeded the printed revenue target of R268,5 billion by R13,7 billion (5,1 per cent) and the revised estimate of R280,1 billion by R2,1 billion (0,7 per cent).

The following factors contributed to this surplus:

Revenue collections

- Real growth in the economy
- Higher than expected inflation resulting in:
  - increased consumer consumption influencing higher VAT receipts
  - greater wage settlements which improved personal income tax (PIT) receipts
- Greater corporate earnings of export companies, particularly in the commodities sector, benefiting from the rand depreciation of 2001
- Active application of paragraph 19(3) of the Fourth Schedule to the Income Tax Act, adjusting basic amounts of companies to the latest published financial statements and bringing provisional payments in line with the latest profit position
- Improved enforcement and processing efficiencies
- Favourable changes in the compliance climate

Operational policy changes

- A greater emphasis was placed on matching taxpayer assets to their declared income (lifestyle audits and increased reliance on third-party verification)
- Efficiencies flowed from the streamlining of business processes in terms of the Siyakha transformation programme

Customs

- Implemented electronic data interchange (EDI) for efficient service delivery linked to an accredited client scheme
- Introduced:
  - A manifest acquittal system for sea modality to improve turnaround and risk assessment
  - Transit system-enabling electronic recording and acquitting of transit entries
  - Export system
  - Duty at source in tobacco and spirits industries
- Improved customs enforcement capability through:
  - Enhancing capacity of the anti-smuggling, post-clearance and industry task teams
  - Adoption of improved information management and entrenching risk as a key driver for customs interventions
- Seizures of cocaine, cannabis, ecstasy and counterfeit goods totalling R11,7 million
- Customs enforcement operations generated R373 million
- Exchange control seizures yielded R1,2 million

Enforcement

- Use of risk management techniques to target high-risk areas and transactions for enforcement interventions
- Enforcement campaigns directed at high-risk industries

Service improvement

- Launched a service monitoring office (SMO)
- Established a dedicated tax exemption unit for public benefit organisations and other entities
- Released a discussion document on the Taxpayer Service Charter
- Introduced new rules for tax courts and the settlement of disputes
- Conducted research on an advance ruling system
- Dedicated front-line areas (service centres) in the Western Cape in accordance with the Siyakha roll-out
- Opened a call centre facility in the Western Cape
- Implemented an electronic customer feedback system
- Undertook service training for staff

REVENUE PERFORMANCE *(continued)*

Technology

- Provided infrastructure to support the roll-out of the transformation programme in the Western Cape
- Established a new development environment
- Restructured the existing technology division

Human resources

- Facilitated staff deployments in support of the roll-out of Siyakha
- Completed 90 per cent of Head Office restructuring
- Established an employee wellness programme
- Rationalised the current medical aid schemes
- Established a medical boarding panel

Strategy and planning

- Successful implementation of the Siyakha transformation programme in the Western Cape
- Conducted tax gap research and proposed revenue collection strategies to reduce the tax gap and broaden the existing tax base
- Implemented an interim performance management system (IPMS)
- Formalised the business planning process
- Hosted the Commonwealth Association of Tax Administrators' (CATA) and the All Africa Customs Conferences

Finance

- Received the following audit opinions for the year ending 31 March 2003:
  - Own Accounts – unqualified
  - Administered Revenue – qualified, except for opinion
- Implemented a progressive cash and expenditure management system which focuses on effective and efficient resourcing and asset utilisation, cash management, cost reduction and procurement efficiencies
- Successful transformation of the organisation's procurement and facilities departments

The business machinery of SARS is focused towards ensuring optimal collection of revenues and the facilitation of legitimate trade. To this end, the organisation engages in a variety of activities and employs different skills across numerous branch offices and ports of entry.

The SARS business

SARS At Your Service

THE SARS BUSINESS

A profile of the SARS core business

This chapter provides an overview of SARS's main business lines and achievements. It addresses the core business in the following areas:

- Revenue performance
- Tax register
- The SARS business approach
- Service
- Tax operations
- Enforcement
- Customs
- Legislation and litigation
- International relations

Revenue performance

From 1995/96 to the current year Government has consistently put money back into the hands of consumers by way of tax relief. The financial year 2003/04 provided further tax relief to the extent of R13,25 billion. Ongoing personal income tax relief increases the minimum tax threshold further and adjusts the tax brackets to benefit mainly low and middle income taxpayers.

Summary of income tax relief granted to individuals

Year	R'000
1998/99	3 700 000
1999/00	4 850 000
2000/01	9 900 000
2001/02	8 308 000
2002/03	15 000 000
2003/04	13 250 000
TOTAL	**55 808 000**

The increase in revenue collections in the context of steady economic growth has enabled Government to increase spending on vital public goods and services, as well as reduce Government's debt. This has indirectly boosted investor confidence.

Level of taxation

The burden imposed through the imposition of taxes is expressed by revenue collections as a percentage of gross domestic product (GDP).

Year	%
1999/00	24,2%
2000/01	23,6%
2001/02	24,6%
2002/03	24,8%

This level represents a moderate burden and has remained fairly constant over the last few years.

Revenue performance against budget

The table below illustrates that in recent years, SARS has consistently exceeded revenue targets. This has been the result of real economic growth, evidenced by increased corporate earnings coupled with a more focused enforcement approach. Further, through transformation efforts, efficiency gains have been realised. The additional amounts collected (i.e. collections above the original estimate) over the period 1995/96 to 1999/2000 were mainly due to improved collections from individuals.

Collections from companies also improved and on average were R500 million above the original estimates for the period, except in 1997/98 when there was a decline of R1,2 billion against the estimate. Since 2000/01 overruns have occurred in corporate revenues, which are mainly due to higher corporate profits and SARS actively ensuring that provisional payments from corporates reflect their taxable income.

Revenue collections since 1998/99

	Target	Efficiencies added to target	Printed estimate	Total additional collections	Actual collections	Revised target	Additional above revised target
1998/99	177 164 100	2 000 000	179 164 100	5 679 500	184 843 600	181 070 125	3 773 475
1999/00	191 151 407	2 735 000	193 886 407	7 499 593	201 386 000	199 593 060	1 792 940
2000/01	210 584 280	3 100 000	213 684 280	6 649 920	220 334 200	216 812 330	3 521 870
2001/02	233 843 240	3 000 000	236 843 240	15 455 060	252 298 300	252 205 491	92 809
2002/03	265 506 400	3 000 000	268 506 400	13 674 463	282 180 863	280 094 689	2 086 174

Achievement of 2002/03 revenue target

SARS exceeded the printed revenue target of R268,5 billion by R13,7 billion and the revised estimate of R280,1 billion by R2,1 billion. The total revenue collected in the current financial year exceeded last year's figures by 11,8 per cent (2001/02: 14,5 per cent).

THE SARS BUSINESS *(continued)*

2002/03 revenue results

Source of revenue	Printed estimate R268,5bn R'000	Revised estimate R280,1bn R'000	Actual result R'000	Increase/ Decrease on printed estimate R268,5bn R'000	Increase/ Decrease on revised estimate R280,1bn R'000
Income tax	155 740 000	162 500 000	164 565 931	8 825 931	2 065 931
Value-added tax	66 200 000	70 600 000	70 149 851	3 949 651	(450 149)
Customs duties	10 500 000	9 500 650	9 330 675	(1 169 325)	(169 975)
Fuel levy	15 166 000	15 200 000	15 333 757	167 757	133 757
Excise duties	11 067 000	11 302 000	11 472 810	405 810	170 810
Skills development levy	2 950 000	3 300 000	3 352 053	402 053	52 053
Other	6 883 400	7 692 039	7 975 785	1 092 385	283 746
TOTAL TAX REVENUE	**268 506 400**	**280 094 689**	**282 180 862**	**13 674 462**	**2 086 173**
Departmental revenue	4 970 000	3 910 231	4 468 810	(501 190)	558 579
Less: SACU payment	(8 259 425)	(8 259 425)	(8 259 425)	–	–
Total budget revenue [1]	265 216 975	275 745 495	278 390 247	13 173 272	2 644 752

[1] *Excludes non-budget revenue of R4 125 948 000 for 2002/03*

Income tax

Income tax amounted to R164,566 billion which is R8,826 billion higher than the printed estimate.

- Income from persons and individuals is R4,355 billion greater than the printed estimate because of higher wage settlements fuelled by increased inflation and the inclusion of company directors in respect of pay-as-you-earn (PAYE).
- Income tax from companies exceeded the printed estimate by R4,887 billion. This was attributable to the following factors:
  - Improved enforcement and compliance in the financial services sector
  - Adjustments to ensure provisional tax payments are more closely aligned with taxable profits
  - The rise in profits in the resource sector due to increased export volumes and improved rand commodity prices
- Collections in respect of secondary tax on companies (STC) displayed a shortfall of R174 million on the printed estimate. This was due to general reductions in distributions, particularly by platinum companies, as a result of expansionary programmes and distributions returning to normal levels off a high peak in the previous year.

Value-added tax (VAT)

VAT collections for 2002/03 amounted to R70,150 billion, which is R3,950 billion more than the printed estimate. This difference is attributable to higher than anticipated growth in domestic consumption expenditure and higher than expected prices.

Customs duty

Customs duty collections amounted to R9,331 billion, which is R1,169 billion less than the printed estimate. Changes in customs revenue are largely driven by the composition of imports, fluctuations in import volumes responding to the international prices of imported goods and the external value of the rand. Lower revenue was due to the importation of items such as capital equipment, appliances and mineral products that attract little or no duty.

Fuel levy

An amount of R15,334 billion was received in respect of fuel levy which is R168 million greater than the printed estimate. Fuel consumption/levy collections are influenced by monthly price adjustments. The difference is due to slightly higher than anticipated fuel sales.

Growth in fuel consumption

Year	Increase
1998/99	0,0%
1999/00	0,7%
2000/01	(2,2%)
2001/02	1,8%
2002/03	2,9%

Excise duty

Excise duty collections amounted to R11,473 billion, which exceeded the printed estimate by R406 million. This was attributable to gains on the consumption of spirits, cigarettes and ad valorem excise duties.

Skills development levy (SDL)

SDL collections totalled R3,352 billion, representing a R402 million surplus over the printed estimate. This is primarily due to the expansion of the register and higher wage increases linked to increased inflation.

Other taxes

Revenue collections in respect of other taxes amounted to R7,976 billion, exceeding the printed estimate by R1,092 billion. This was partly due to greater transfer duty revenue flowing from a buoyant property market.

Tax register

Active cases on register are an indicator of the expansion of the tax base. The level of growth is influenced by economic conditions, tax policy, legislative amendments, tax base broadening activities and the overall compliance climate. The composition of the register has remained relatively stable with the greatest proportion of the base (87 per cent) attributable to income tax (individuals and companies). The composition of the register is as follows:

	2002/03	2001/02
Individuals	66%	67%
Companies	21%	20%
PAYE	4%	4%
VAT	9%	9%

THE SARS BUSINESS *(continued)*

During the financial year, growth was recorded in all registers resulting in an overall expansion of the register by 9,9 per cent (2001/ 02: 10,6 per cent). This amounts to an increase in excess of 500 000 taxpayers.

Category	Total on register		% change	
	2002/03	2001/02	Current Year	Prior Year
Income tax	5 106 512	4 637 811	10,1%	11,4%
• Individuals	3 885 136	3 556 023	9,3%	11,6%
• Companies	1 221 422	1 081 788	12,9%	10,8%
PAYE	252 589	219 732	15,0%	3,9%
VAT	506 098	479 666	5,5%	6,4%
TOTAL	**5 865 199**	**5 337 209**	**9,9%**	**10,6%**

The increase in the various registers is due to:

- Natural growth of the tax base
- An improved compliance environment resulting from a more focused and visible enforcement approach
- Increased company registrations resulting from SACRO/CIPRO link to the Registrar of Companies thus reducing the potential for non-registration

The SARS business approach

During the period under review, SARS adopted a variety of strategies to ensure delivery on its mandate and meet revenue collection targets. These included:

- Refined existing processes to reduce turnaround times, improve the quality of outputs and contain administration costs
- Pursuance of organisational synergies across the core process and tax and customs operations to leverage scarce resources
- Introduction of electronic filing and payments
- Introduction of cross-functional work teams
- Risk-driven enforcement action to raise overall compliance levels
- Improved governance, organisational coherence and enterprise-wide risk management

Further, a comprehensive compliance strategy was adopted by the organisation. This seeks to provide an integrated and consistent approach towards increasing tax compliance. The basic elements of this strategy are as follows:

- Differentiated strategy for engaging with taxpayers driven by taxpayer behaviour
- Creating a single view of the taxpayer across all SARS business processes and the various tax and customs acts to be administered
- Holistically managing the SARS core process with key emphasis being placed on critical processes such as pre-engagement, registration, filing and assessment

- Focusing enforcement action on high-risk areas and sectors supported by intelligence-gathering activities
- Conducting risk-based and random audits of primary taxpayer segments to ensure maximum visibility and deterrence
- Pursuing a community approach that builds strategic alliances and seeks collaboration with industry and professional bodies

Building the organisational capability to implement the compliance strategy will require expansion of our transformation model, systems and process enhancements and upgrading of core competence. The transition process will be phased in over the next few years.

Service

"SARS at Your Service" represents the credo adopted to describe the nature and quality of our engagement with clients. This serves to entrench a strong service orientation in accordance with the principles of Batho Pele and the SARS values.

Turnaround time for generating an assessment from the receipt of a return

Capturing of returns

Income tax:	73 per cent [1] returns captured (processed) within 21 days of receipt
VAT:	90 per cent [2] captured within 15 working days of receipt
EMP (PAYE):	77 per cent [3] captured within 15 working days of receipt

Level of taxpayer satisfaction through surveys (internal/external)

Customer feedback system	79,1 per cent satisfaction rating
	(The survey comprised eight of top ten branches)
Manual exit surveys	95 per cent satisfaction rating
	(31 branches; two to three per cent of all customers completed the surveys)
Call-back surveys	94 per cent satisfaction rating
	(20 call backs per week per branch total calls, totalling approximately 45 000 over the period)

Outreach programmes and education campaigns

Outreach programmes to Government schools and other educational institutions:

- Tax registration programmes
- Assisted taxpayers with the completion of tax returns
- Offered seminars on taxation in South Africa
- Established tax focus groups in partnership with major stakeholders
- Effected outreach programmes to various industries
- Provided seminars and information kiosks on various tax subjects

Education campaigns conducted were:

- Capital gains tax
- PAYE reconciliation process

[1] *Sample 2 Nov – 3 May*
[2] *Sample period 3 Jan – 3 March*
[3] *Sample period 3 Jan – 3 March*

- VAT: input and output taxes
- Allowances
- Investment and capital income
- Tax deduction, for example medical expenses and travelling

Telephone calls

Abandonment rates

Western Cape and KwaZulu-Natal displayed an average of 8 per cent. This is considered acceptable against the international benchmark of 5 to 10 per cent.

Resolution without handover

"First time query resolution" – 62 per cent. This highlights SARS's focus on resolving most queries in the frontline area.

Walk-ins

Waiting time for an appointment

Very long	6,97 per cent
Long	5,84 per cent
Not long	35,85 per cent
Served immediately	51,34 per cent

The above results illustrate good service delivery in addressing counter queries.

Time to resolve a counter query

Service centre	7 minutes
Call centres	3 minutes

These statistics compare favourably with other revenue agencies which benchmark is between 10 and 15 minutes.

Service capability

The taxpayer service improved its delivery capacity through the following:

- Siyakha implementation within Western Cape: Bellville and Cape Town that enhanced capacity by 115 staff members
- Establishment of a call centre in the Western Cape boasting a staff complement of 121
- Technology enablement and enhancement for Western Cape call centre: Siebel
- The introduction of a service monitoring office (SMO)
- Implementation of a customer feedback system in eight of the top ten offices
- Implementation of a service training programme

Taxpayer service charter

During the year SARS released a draft version of its Taxpayer Service Charter. This represented a departure in that it binds SARS to service delivery standards and carrying out independent taxpayer satisfaction surveys which have to be reported on publicly.

Service monitoring office (SMO)

In line with international best practices and as part of SARS's commitment to customer service the SMO was launched in October 2002. The office functions as a last resort to facilitate the speedy resolution of complaints which could not be solved through the normal operational channels.

Although the office does not report to Parliament, it functions independently from the local branch offices and reports directly to the Commissioner. This structure enables the Commissioner to obtain information regarding problem areas from an independent source and to take the necessary steps to pursue resolution.

The success of the office can be measured not so much by the number of complaints it received during the first year, which totalled 7 246, but by the remedial steps taken to ensure these complaints are not repeated. Although the office is only in its infancy it is a step in the right direction. In creating the office SARS sends a clear message that in collecting revenue it will ensure that administrative actions are lawful, reasonable and administratively fair as guaranteed by the Constitution. If any of SARS's employees act in an unprofessional manner the SMO will ensure that the matter is investigated and that the necessary steps are taken. Records of the office indicate that the majority of taxpayers are satisfied with the service received from the SMO.

Remedial steps that have been taken on reports by the SMO submitted to the Commissioner include:

- Holding branch offices accountable for speedy resolution
- Monitoring the resolution by the branch office of the issues raised
- Reprimanding office management and staff where warranted
- Tracking the service delivery of the offices and the issues raised
- Process improvements where the underlying problem relates to the administration system

Other initiatives

SARS corporate office (SCO)

The SCO to be launched in the forthcoming year will offer an integrated service delivery to large corporates and aims to address their specific needs and expectations.

Tax operations

Tax assessment

The operational productivity of SARS is largely dependent on efficient processing of taxpayer returns. The assessment cycle comprises registration, issuing of returns, assessment activities and maintenance of the taxpayer account regardless of the tax type. Within this cycle the primary objective is to achieve high-quality processing with optimal productivity. The assessment function has critical interdependencies with service and enforcement areas in terms of providing information and ensuring an efficient core process.

Key indicators of assessment productivity are reflected by the levels of:

- Returns unassessed
- Returns processed
- Quality

THE SARS BUSINESS *(continued)*

Income tax returns unassessed

There is an overall 18,7 per cent improvement in unassessed returns in spite of a 10,1 per cent growth in the active register. This is the direct consequence of improved processing efficiencies within the assessment function achieved through capacity enhancements and workload balancing.

Work in progress in the assessment of returns at 31 March 2003 is as follows:

	Number of returns unassessed		% change	
Type of return	2002/03	2001/02	Current year	Prior year
Companies	54 890	80 085	(31,5%)	1,7%
Individuals	205 771	233 873	(12,0%)	(38,2%)
Trusts	13 822	23 652	(41,6%)	12,4%
TOTAL	**274 483**	**337 610**	**(18,7%)**	**(29%)**
Active cases	5 106 558	4 637 811	10,1%	11,4%
% unassessed of active register	5,4%	7,3%		

Returns processed

This indicator reflects the work executed in the assessment cycle during the current financial year:

	Number of returns		% change	
	2002/03	2001/02	Current Year	Prior Year
Returns processed	3 832 805	3 761 340	1,90%	15,9%

The marginal increase in return volumes processed is attributable to improved management of the assessment cycle.

Rapid processing room concept

The basis for the establishment of the rapid processing rooms in previous years was as follows:

- Dedicated staff per function with an emphasis on streamlining the various activities

The following table indicates the capacity:

Rapid response room	Inception date	Number of staff
Pretoria	September 2000	172
Johannesburg	February 2001	177
Bloemfontein	July 2001	46

- Workflow design to support bulk processing
- Appointment and training of temporary staff to achieve rapid turnaround times
- Limiting disruptions from the frontline to enable uninterrupted processing

This approach has been successful in ensuring the timely processing of large volumes of income tax, VAT, PAYE and provisional tax returns.

Income tax	Number of returns		% change
Returns processed	2002/03	2001/02	
Three rapid processing rooms (Income tax returns)	2 127 974	1 385 622	53,6%

Quality improvement

Revised assessments (reworks)

The percentage revised assessments which occur as a result of an assessment error or reworks, has declined significantly. During the previous tax cycle, approximately 13,3 per cent of all assessments raised were reworked or revised. A steady decline of four per cent has been detected regarding the revised assessments raised during 2002/03 cycle. This trend could be ascribed to several factors such as the emphasis on training of staff, quality awareness, greater experience, improved templates, etc. In addition, taxpayer education and consultant awareness may also have contributed to the decrease in the number of revised assessments.

Tax year	Assessments raised	Assessments revised	% of assessments revised
2002/03	3 832 805	358 796	9,36%
2001/02	3 761 340	502 015	13,35%

Dispute resolution process (DRP)

Since the introduction of the dispute resolution process (DRP) including the alternate dispute resolution (ADR) and required processes, all staff were trained to resolve objections and disputes within the prescribed resolution time frames and constraints. In addition, meticulous attention was given to control measures such as the management and maintenance of the objections case register. Whilst vast numbers of objections and appeals were forthcoming since the inception of the Income Tax Act, the overall incidence of revised assessments has declined.

THE SARS BUSINESS *(continued)*

Electronic filing (e-filing)

While initial take-up was not significant, the current year's figures reveal a substantial increase in the use of electronic return filing and payments with submissions and payments increasing fourfold and the value of payments received having doubled from the previous year. Thus e-filing and e-payments offer significant growth potential for future years with the internal benefits of improved quality, turnaround and enhanced cash flow. Key e-filing statistics to date are:

Item	2002/03	2001/02
Number of registered tax practitioners	1 303	1 066
Number of registered taxpayers	46 502	6 150
Number of VAT 201 returns submitted	21 426	4 064
Number of employee 201 returns submitted	22 045	4 248
Number of IRP6 returns submitted	7 895	2 158
Total number of submissions	51 396	10 470
Monetary value of submissions (Rand)	21 942 234 080	4 126 767 448
Monetary value of VAT credits (Rand)	(5 667 712 813)	(1 367 254 050)
Number of payments made	26 334	5 597
Total value of payments (Rand)	2 025 112 242	942 835 530

Enforcement

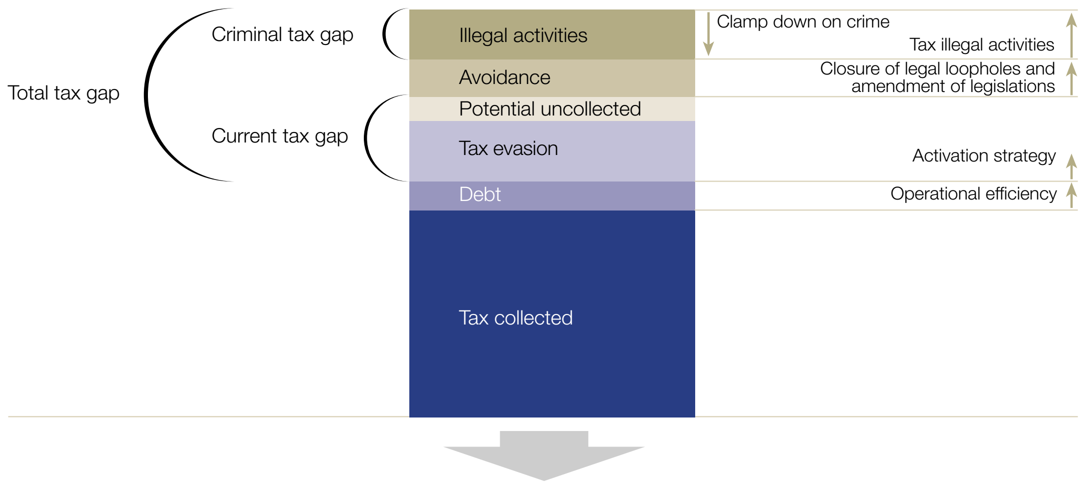
The Enforcement division operates in an environment where cognisance should be taken of the known/existing tax base on the one hand as well as the unknown tax base on the other hand. For the existing tax base, the emphasis is on continuously improving processes, efficiencies and controls while, for the unknown tax base, a comprehensive understanding of the economy and all economic activities are important in order to increase coverage.

The Enforcement division encompasses audit, enforced collections and criminal investigation functions. The focus is to improve compliance through effective and timely detection, measurement, correction and deterrence of tax transgressions. Recent years have seen investments in this area of the business contribute to an improvement in the overall levels of compliance in South Africa.

Tax gap

The year witnessed substantial effort in the area of quantifying the extent of the tax gap and profiling its nature in addition to enhancing the revenue estimation and modelling processes. These insights were used to inform enforcement interventions directed at reducing the tax gap through the revenue activation programme (RAP). Preliminary results indicate revenue potential which has resulted in greater allocation of resources to this programme. The tax gap project has since been operationalised and the capability increased to continue with this work.

Elements that comprise the tax gap



The gap exists because some individuals and businesses understate income, overstate deductions, credits or exemptions, or make calculation errors on their returns. It further includes taxpayers who do not file returns that they are required to file, or file after they were legally due. Finally, the gap includes errors in assessments made by SARS.

Specific initiatives aimed at reducing the tax gap included:

- Active application of paragraph 19(3) of Income Tax Act
- Changes in insurance legislation
- Increased corporate assessment payments through audits
- Engagement of the banking sector
- The Woodmead Project, focusing on enforced collections
- Tax base broadening (across all tax types)

Non-registration

The effectiveness of the tax administration and tax system is illustrated by the quantum and nature of the prevailing tax gap. In the South African context, this poses a particular challenge as there is a material difference between the potential tax register and the taxpayers on the SARS register. Recently, efforts focused on broadening the tax base to ensure that this disparity is contained and the integrity of the tax system maintained.

Specifically, the Enforcement division has various tax base broadening (TBB) initiatives with its approaches tailored for the formal as well as the informal elements of the economy. These TBB initiatives address primarily the formal sector as this area contains a number of unregistered taxpayers with significant revenue potential for SARS, while the bulk of the potential taxpayers in the informal sector fall below the tax threshold.

The following indicates the non-registration gap:

Estimate of people not on register that are economically active

Number of individuals economically active	11 392 000 [1]
Number or persons known to SARS	7 419 795
Number of persons not known to SARS and employed	3 972 205 [2]

From the above it can be seen that the non-registration gap offers at least three million individuals that should be on the SARS taxpaying register.

[1] *Labour Force Survey February 2002*
[2] *Formal and informal sector*

THE SARS BUSINESS *(continued)*

Non-filing

Returns issued to clients for payment and/or return filing must be submitted to SARS in terms of legislation. Outstanding returns arise when a return has not been received despite an obligation to submit one. The number of outstanding returns reflects the incidence of non-filing.

Management of outstanding returns is essential to contain the size of the tax gap (i.e. the difference between actual revenue collections and potential revenue collectable). Linked to this is the need to regulate the incidence of extensions granted which adversely impacts processing volumes and the flow of funds to the fiscus. Thus extensions have to be limited as they create opportunities for the deferment of tax payments.

Statistics relating to the status of outstanding returns issued to taxpayers on register as at 31 March 2003 are as follows:

Number of returns outstanding

Type of return	2002/03	2001/02	% change Current year	% change Prior year
Individuals	2 000 230	1 821 945	9,8%	4,4%
Companies	1 141 784	994 539	14,8%	14,1%
PAYE	861 348	860 443	0,1%	69,0%
VAT	630 819	552 022	14,3%	82,9%
TOTAL	**4 634 181**	**4 228 949**	**9,6%**	**23,4%**

The extent of outstanding returns is influenced by new registrations, de-registrations, extensions granted and non-compliance with return filing dates. The increase in outstanding returns at year end is due to an increase in the register coupled with the timing of the issuance and receipt of various returns. A significant number of outstanding returns relate to prior years of assessment (especially companies and trusts), which directly impact on work volumes and revenue collection. The outstanding returns project, with its aim of substantially reducing the number of outstanding returns on the system, was implemented in August 2002 and yielded an additional 1,3 million returns.

Non-payment

During the year under review increased activity in the areas of auditing and collection of outstanding returns gave rise to a higher debtors book. The worsening debt situation is receiving attention by way of the implementation of new and refocused initiatives in the enforcement business plan.

Debt type	Amount R billion
Individuals	10,1
Companies	12,7
PAYE	12,1
VAT	21,1
TOTAL	**56,0**
Less: Unallocated receipts	2,3
Less: Objections and appeals	13,0
Less: Estates and liquidations	5,5
Less: Provisions for write-offs	3,2
TOTAL AFTER ADJUSTMENTS	**32,0**
Total tax revenue	282,2
Debt before adjustments as a % of total tax revenue	19,8%

The table above illustrates outstanding debt at year end.

Benchmark comparatives reveal ratios (debt as a percentage of total tax revenue) of eight per cent for the OECD member countries, Canada 5,3 per cent, Ireland 4,01 per cent, Australia 5,7 per cent and New Zealand 3,7 per cent.

Note: *The debt figures in the above table exclude current debt (debt due but not payable yet). The total debt figure for 2002/03 and 2001/02, including current debt, is R62,1 billion and R43,1 billion respectively.*

Growth in debt by tax type

Tax type	% change 2002/03	% change 2001/02
Income tax	30,3%	32,2%
PAYE	70,4%	62%
VAT	44,5%	23%

Reasons for the variance are as follows:

- There was a material increase in the PAYE register (15 per cent)
- The outstanding returns strategy initiative resulted in more VAT and PAYE debt on the SARS books
- Increased audit activity and assessments raised
- Included in the debtors' figure is contested debt in the form of objections and appeals which adversely affects collections activities
- Limited resources resulted in less time being spent on suspended cases (companies that have ceased trading or where the address is unknown)

There has been a steady increase in debt compared to prior years. Composition of the debt at 31 March 2003

	R billion		% composition		% change in register	
	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02
Income tax	22,8	17,5	40,7%	44,6%	10,0%	11,4%
VAT	21,1	14,6	37,7%	37,3%	5,5%	6,4%
PAYE	12,1	7,1	21,6%	18,1%	15,0%	3,9%
TOTAL	**56,0**	**39,2**	**100,0%**	**100,0%**		

Age analysis of outstanding debt

	Debt at R billion		% change	
	2002/03	2001/02	2002/03	2001/02
Interest	7,3	5,1	43,1%	27,5%
1 – 8 months	10,4	9,9	5,1%	57,1%
> 8 months	38,3	24,2	58,3%	26,8%
TOTAL	**56,0**	**39,2**	**42,9%**	**33,3%**

The material increase in outstanding debt from the previous year (42,9 per cent) is due to the following:

- Increase (9,9 per cent) in the active register of taxpayers
- Increase in income tax returns processed from the previous year
- Significant increase in old debt due to operational emphasis on new debt

Debt management system

A debt management system was successfully piloted in the Western Cape and will be rolled out to other branches. The electronic loading of the data is currently in progress. It is anticipated that this new system will assist in the proactive management of the debtors' book.

Audit

Risk profiling was introduced as a case selection methodology to improve overall audit effectiveness. While there has been marked improvement in audit results, it is anticipated that further refinement will yield greater returns in the coming years. The process to raise the level of addressing risk will probably take another three to four years to mature into a comprehensive risk-profiling platform.

During the year under review, the case management and tracking (CMT) system was piloted to improve the reporting, tracking and turnaround of audit work. The audit process was further enhanced by the expansion of the SESAM audit tool which empowers auditors to scrutinise and make valid selections from large volumes of electronically stored data within the taxpayer's business systems. Results indicate that there have been improvements in manpower utilisation as well as an enhanced ability to tackle large cases. This approach was complemented by various industry campaigns addressing high-risk sectors.

The value of additional tax assessments raised by auditors amounts to:

	R'000		% change	
Tax type	2002/03	2001/02	2002/03	2001/02
VAT	5 881 363	3 866 897	52%	35%
PAYE	1 313 585	507 231	159%	7%
Income tax	11 699 874	5 127 060	128%	70%
Other	1 856 320	820 238	126%	
TOTAL	**20 751 142**	**10 321 425**	**101%**	**62%**

Audit improvements were due to:

- Improved quality in cases selected for audit resulting in a considerable improvement in yield per case
- Increase in the number of multi-tax audits conducted that signals a holistic approach to the taxpayer's compliance obligation
- A better sense of the taxpayer's affairs obtained through improved audit methodology
- Informal training interventions, focusing on the sharing of knowledge and transfer of critical skills
- Development and implementation of a "Toolbox" as a guide to activities in Enforcement and Customs, covering all taxes and incorporating action steps, extracts from manuals, case studies and providing access to legislation, enforcement policies, processes and procedures.
- Improved quality review, thereby reducing the number of objections and appeals

Audit coverage

Fiscal year 2003	Number	Coverage as % of register
Income tax	76 151	1,4%
PAYE	3 347	1,3%
VAT	52 071	10,2%
Other	3 966	

Item	2002/03	2001/02
% Strike rate	52%	34%
Average net revenue per case	R151 296	R39 445
Average net revenue per auditor	R14 126 032	R7 500 000

In the period under review, the number of cases investigated has decreased. This is due to a stricter definition of what constitutes an audit/investigation. There has been an expansion in risk profiling which resulted in an improved strike rate and higher revised assessments per taxpayer.

THE SARS BUSINESS *(continued)*

Industry enforcement

As part of its business approach, the Enforcement division does risk analysis to determine industries that pose greater risk. The following industries and tax products were identified and focused on for improving compliance levels:

- Excise
- PAYE and VAT
- Petroleum and chemical industry
- Tobacco industry
- Incentive schemes
- Government tenders
- Gambling industry
- Mining industry
- Cash and carry industry

In addition to the emphasis on high-risk industries, Enforcement also embarked on certain projects. The following indicates the yield from these projects:

Motor industry development programme (MIDP)	R80 million recovered
Government contracts	R30 million in assessments
Music industry	R500 million in assessments
Entertainment industry	R16 million recovered
Micro-lending	R700 000 recovered
Wine industry	Estimated assessments of R100 million

Criminal investigations (CI)

This division's primary focus is on revenue-related crimes in order to enhance the level of compliance among the taxpaying population. Key achievements during the period under review were:

- Expansion of the CI focus to include the prosecution of offences such as non-filing and non-registration in addition to the normal tax evasion/fraud-type cases. This approach was complemented by a road show to assist local offices in improving their ability to deal with such cases
- Greater cooperation and engagement was pursued with branch offices to enable successful prosecution
- Within the Siyakha model, synergy between the various enforcement units was achieved through co-location and co-ordination of efforts

Results for the current year

Item	2002/03	2001/02
Cases finalised		
• Non-registration, non-filers	4 172	–
• Fraud, statutory evasion, theft	332	184
Number of prosecutions		
• Non-registration, non-filers	842	–
• Fraud, statutory evasion, theft	64	53
Results of prosecutions (money banked)	R660,0 million	R162,5 million
Assessments raised		
• Customs	R132,2 million	
• Income tax	R1 149,5 million	

Internal investigations

The unit focuses on investigations of external tax and customs fraud to the extent that it involves collusion with SARS personnel. A further area of emphasis is raising the awareness of corruption in SARS offices and creating a zero tolerance culture towards fraud.

Relevant statistics for the period

	2002/03	2001/02	% change
Cases received	178	126	41%
Investigations finalised	79	34	132%
Disciplinary action taken	66	33	100%
Total number of dismissals			
• Fraud and corruption	67	49	37%
• Other	42	30	40%
Criminal cases	14	8	75%

Special compliance unit

This unit was formed to deal with complex enforcement cases in a co-ordinated and integrated way through the teaming of auditors, collectors and investigators. The expected benefit is a faster turnaround time to taxpayers and to make it easy and convenient for taxpayers to be tax compliant.

At year end the unit had 59 cases on hand, had served assessments totalling R247 million and recovered R10,2 million.

Customs

The role of Customs is to monitor, control and facilitate the movement of goods and people through all border posts of the Republic of South Africa, in order to:

- Correctly assess and collect the applicable duties and taxes on all goods
- Prevent the movement of any prohibited goods
- Administer the movement of restricted goods and
- Maintain appropriate records on the movement of goods

Customs has engaged in developments with the explicit intention of protecting and promoting the interest of the country, the continent and the developing world. Together with other African customs administrations, a significant contribution has been made to the New Partnership for Africa's Development (NEPAD).

During the year under review customs operations were enhanced with the roll-out of Siyakha transformation initiatives, the expansion of skills and capacity, essential border infrastructure upgrades, the adoption of risk-profiling techniques to improve the efficacy of enforcement interventions and generally facilitating legitimate trade.

CAPE Phase 2

The improved customs automated processing of bills of entry system (CAPE phase 2) was initially piloted at Johannesburg International Airport and this was successfully implemented at major ports. The system is delivering improved efficiency and service through the reduction of turnaround times.

Electronic declarations

SARS has moved closer to a paperless environment by implementing the electronic data interchange (EDI) system as a tool for interface with the CAPE system to improve processing efficiency. Approximately 80 per cent – 90 per cent of declarations are already made electronically after less than a year of EDI implementation. Users include both small and medium clients and most of the large customs agents and importers.

Manifest receipts and acquittals

The implementation of the manifest acquittal system in the sea modality has been introduced to significantly reduce turnaround times while improving the risk assessment capability and therefore customs controls. Its extension of compliance levels through enhanced risk assessment and profiling to the air modality will significantly improve the quality of service.

Accreditation programme

The accreditation programme was introduced during 2002. The rationale of the programme is to facilitate the business of clients, enabling Customs to focus their efforts on non-compliant clients. It is a prerequisite that applicants have an established record with Customs and have the following in place:

- Developed accounting system
- Developed internal customs control system
- Computerised systems

In addition to the above requirements, Customs also conducts inspections at the premises of the client to establish their conformance to the accreditation requirements.

Profile of clients participating on the programme

Type	Number
Importers	318
Exporters	71
Agents	188
Removers in bond	11
Warehouses	7
TOTAL	**595**

Service delivery implications

Clients that have been awarded the accreditation status are given the opportunity to interact with customs through the paperless electronic data interchange (EDI) system. The processing time of entries (from the time of submission to release by customs) for these clients is reduced to four hours, compared to 24 hours for manual processing.

The supply chain initiative

Customs employed the accreditation concept to achieve compliance within the supply chain of a major retail chain store. The objective of the initiative was to accredit the suppliers of the retail outlet, which would in turn reduce customs intervention on their imported consignments.

Transit

The implementation of the transit system ensured better transit controls. The electronic recording and acquittal of transit entries have enabled Customs to reduce the incidence of consignments diversion as it is now possible to effectively follow up unacquitted entries.

Exports

The export system has been implemented nationally. The administration of exports requires special attention in order not to increase the costs to business. Thus great care has to be taken not to disrupt the flow of exports while improving customs controls.

Administration of excise

Duty at source (DAS)

The DAS initiative is intended to simplify the administration of the main excisable industries, namely oil, tobacco and spirits beverages. The principle of DAS enables SARS to assess excise duty at the point of manufacture. Implementation is on a “cash neutral” basis which implies varying payment cycles depending on the industry involved.

The beer industry has been operating on a DAS basis for a number of years. DAS was implemented in the tobacco industry on 1 October 2002, for the spirits industries on 26 February 2003, and for the oil industries on 1 April 2003. Regional cooperation has been strengthened as BLNS countries have agreed to the co-implementation of DAS. This will reduce leakages from the excise industry and round-tripping of excise goods.

Administration of trade programmes

Free trade agreements (FTA)

At present Customs administers the following trade programmes:

- The South Africa/European Union Free Trade Agreement
- The South Africa/Zimbabwe Trade Agreement
- The South Africa/Malawi Trade Agreement
- The South Africa preferential dispensation with Mozambique
- The African Growth and Opportunity Act
- The Southern African Development Community (SADC) Protocol on Trade

THE SARS BUSINESS *(continued)*

Relevant highlights for the current year include:

- Signing of the new Southern African Customs (SACU) agreement
- MERCOSUR – a framework agreement has been discussed
- CHINA – agreed to start talks for the establishment of an FTA
- INDIA – indicated willingness to establish an FTA with SACU
- EFTA – the EU, Norway, Iceland, Switzerland and Liechtenstein have indicated willingness to establish FTAs
- NIGERIA – the Bi-National Commission explored an FTA
- NEPAD – Egypt and Kenya have indicated interest in driving this process
- EU/ACP – SA exploring harmonisation of rules of origin and duties
- General system of preferences (GSP) – The Department of Trade and Industry has indicated that it will be handing over the administration of these schemes to customs in the 2002/03 financial year
- Countries with which the RSA currently share this scheme, and which will be administered by SARS, are:
  - The European Union
  - Switzerland
  - Norway

Already administered by SARS:

- The USA – under the African Growth and Opportunity Act (AGOA scheme)

Other countries with which South Africa have this scheme, and which are administered by the Chamber of Commerce:

- Canada
- Czech Republic
- Hungary
- Japan

Motor industry development programme (MIDP)

The MIDP is an incentive programme that rewards vehicle and component manufacturers who produce vehicles and automotive components with substantial local content. It also rewards the manufacturers for a high export volume thereby achieving foreign currency for the country.

During the 2002/03 financial year manufacturers received import rebate credit certificates worth R16 billion, which in effect meant that vehicles valued at R16 billion could be imported duty-free. Although this incentive scheme has multiple benefits for the country, SARS forfeited over R6 billion in duties.

Customs is now closely investigating the validity of all import rebate credit certificates issued by the Department of Trade and Industry. This necessitates that MIDP accounts be integrated with post-audit clearance teams that will extend their control activities to all MIDP registrants. The Head Office MIDP team will be presenting workshops to Post Clearance Inspection (PCI) officers, while assisting the Woodmead Project Team with integrated audits.

Duty-free shops

On request from the Airports Company South Africa (ACSA), customs is considering the extension of duty-free shops at three international airports (Johannesburg, Cape Town and Durban). This implies a duty-free service for international arrivals and for travellers in the common customs area. The latter would, however, purchase goods on a duty-paid basis.

Industrial development zones (IDZs)

A joint task team exists between the Department of Trade and Industry and SARS. The team has been reconciling the Department Trade and Industry (DTI) regulatory framework with customs requirements. IDZs in South Africa will be managed on the basis of secured industrial parks. Concessions in the form of infrastructure, cheaper water and electricity will form the basis of attracting enterprises to locate in these zones. Manufacturing enterprises will be located in the customs secured area of the IDZs which will be subject to all customs requirements applicable to manufacturing warehouses. Development of the zone in Port Elizabeth is quite advanced while that of East London has just commenced.

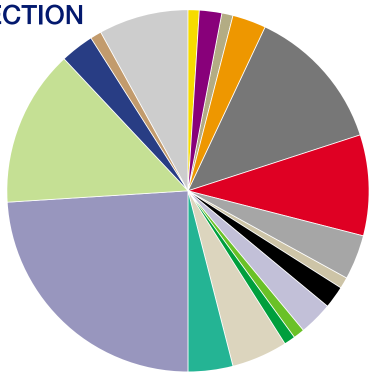
Trade statistics

Imports

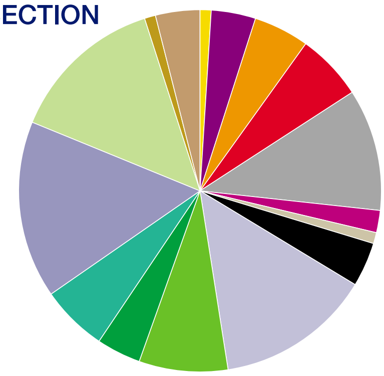
Revenue collection

The target was revised downward for customs duty collections from R10,5 billion to R9,7 billion for the current financial year, due to a realistic assessment of the macro-environment.

VALUE PER SECTION



DUTY PER SECTION



Section	Item	Value per section	Duty per section	Chapters
1	Live animals, animal products	1%	1%	1 – 5
2	Vegetable products	2%	4%	6 – 14
3	Animal or vegetable fats, oils and their cleavage products, prepared edible fats, animal or vegetable waxes	1%	0%	15
4	Prepared foodstuffs, beverages, spirits and vinegar, tobacco and manufactured tobacco substitutes	3%	5%	16 – 24
5	Mineral products	13%	0%	25 – 27
6	Products of the chemical or allied industries	9%	6%	28 – 38
7	Plastics and articles thereof, rubber and articles thereof	4 %	11%	39 – 40
8	Raw hides and skins, leather, fur skins and articles thereof, saddlery and harness, travel articles, Handbags and similar containers, Articles of animal gut (other than silkworm gut)	0 %	2%	41 – 43
9	Wood and articles of wood, wood charcoal, cork and articles of cork, Manufacturers of straw, of esparto or of other plaiting materials, basket ware and wickerwork	1%	1%	44 – 46
10	Pulp of wood or other fibrous cellulosic material, recovered (waste and scrap) paper or paperboard, paper and paperboard and articles thereof	2%	4%	47 – 49
11	Textiles and textile articles	3%	14%	50 – 63
12	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof, prepared feathers and articles made therewith, artificial flowers, articles of human hair	1%	8%	64 – 67
13	Articles of stone, plaster, cement, asbestos, mica or similar materials, ceramic products, glass and glassware	1%	4%	68 – 70
14	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof, imitation jewellery, coin	5%	0%	71

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Section	Item	Value per section	Duty per section	Chapters
15	Base metals and articles of base metal	4%	6%	72 – 83
16	Machinery and mechanical appliances, electrical equipment, parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	24%	16%	84 – 85
17	Vehicles, aircraft, vessels and associated transport equipment	14%	14%	86 – 89
18	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	3%	0%	90 – 92
19	Arms and ammunition; parts and accessories thereof	0%	1%	93
20	Miscellaneous manufactured articles	1%	4%	94 – 96
21	Works of art, collectors' pieces and antiques	0%	0%	97
22	Other	8%	0%	98 – 99

SARS generates and publishes trade statistics on a monthly basis from the clearance documents submitted, one of which is the voucher of correction (VOC). Customs allows VOCs to be passed up to two years after the bill of entry has been processed. It is due to the inclusion of these VOCs that the trade statistics may appear unreliable to the public sector, since VOCs can have either positive or negative impact on the progressive figure.

The processes to capture and verify these statistics have many business rules embedded in them to support the generation and publication of accurate and reliable trade statistics.

The benefits of close monitoring of these statistics have been recognised. To this end customs has embarked on a pilot project at five ports of entry, which will greatly increase the accuracy of such data. The traffic flow system (TFS) is being piloted at Lebombo, Beit Bridge, Grobler's Bridge, Maseru Bridge and Oshoek.

Operational statistics in respect of imports and exports

During the current year trade values increased although volumes indicated a slight decline. Substantial increases were evident in both SADC and EU trade. The material increase in the value of exports was largely due to a weaker rand that rendered locally produced goods export competitive.

The following table highlights trade volumes during the period:

Total value of imports and exports

April 2002 – March 2003

Imports	Exports
R273 174 400 000	R309 699 400 000

April 2001 – March 2002

Imports	Exports
R212 652 100 000	R265 241 700 000

Total number of transactions

April 2002 – March 2003

Imports	Exports
1 300 402	1 446 271

April 2001 – March 2002

Imports	Exports
1 426 607	1 255 236

Total value of SADC imports and exports

April 2002 – March 2003

Imports	Exports
R1 086 106 687	R6 763 602 647

April 2001 – March 2002

Imports	Exports
R81 673 810	R163 904 310

Total value of European Union imports and exports in rands

April 2002 – March 2003

Imports	Exports
R30 994 385 620	R33 133 776 005

April 2001 – March 2002

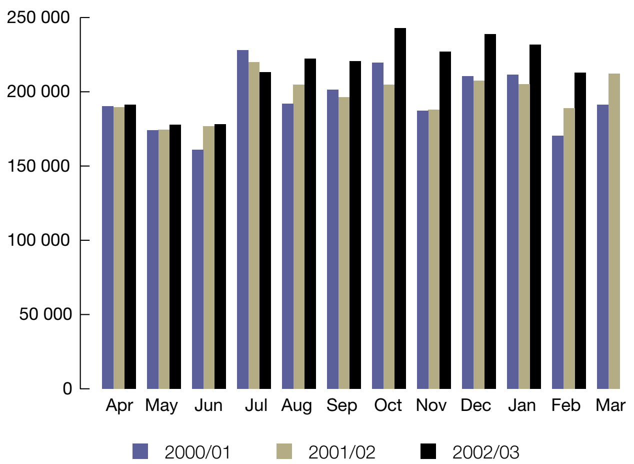
Imports	Exports
R2 501 936 921	R10 456 251 632

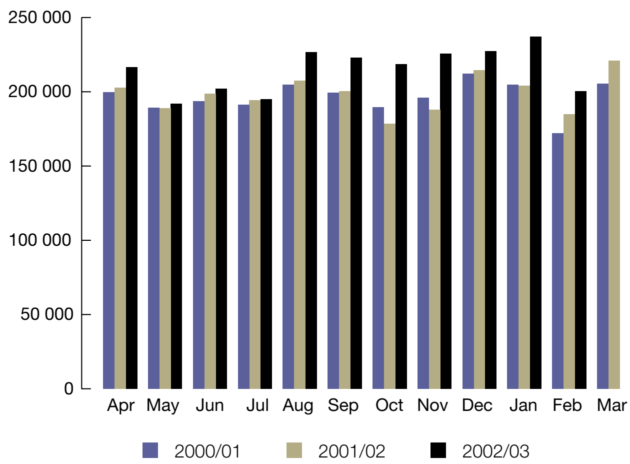
Customs enforcement

Administration of travellers/passengers

Advanced passenger information

SARS does not currently have a system recording passenger totals and has to rely on figures provided by Department of Home Affairs:





A new SARS system is at an early stage of development to process advanced information, using data sourced from airlines and other transporters. The aim of the project is to build a working model for passenger control at Johannesburg International Airport which will:

- Ensure the proper flow of passengers through the red and green channels
- Build working relationships with partners
- Ensure targeting and risk-profiling
- Build a risk database by enhancing the current passenger declaration system (rolled out at Cape Town in a pilot phase)

Administration of prohibited and restricted goods

Greater attention has been given to monitoring and improving performance in this area. Various seizures were made at different ports which include cocaine, cannabis, ecstasy and counterfeit goods to a total value of R11 673 550:

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Office	Date	Product	Quantity	Value
Johannesburg International Airport	2002-04-01	Narcotics – cocaine	20 g	R7 000
Maseru Bridge	2002-04-01	Cannabis (dagga)	15 kg	R15 000
Maseru Bridge	2002-04-12	Cannabis (dagga)	5 kg	R5 000
Johannesburg International Airport	2002-04-24	Cannabis (dagga)	48,6 kg	R48 600
All national airports in SA	2002-04-24	Electronics – counterfeit	1 708 CD/VCD/DVDs	R100 000
Maseru Bridge	2002-05-08	Cannabis (dagga)	7,6 kg	R7 600
Mdatsane-East London	2002-05-14	Narcotics – ecstasy	4 044 tablets	R55 000
Maseru Bridge	2002-05-17	Cannabis (dagga)	71,05 kg	R71 050
Cape Town International Airport	2002-05-23	Narcotics – cocaine	0,5 kg	R225 000
Caledonspoort	2002-07-05	Cannabis (dagga)	942 kg	R942 000
Durban International Airport	2002-07-16	Narcotics – ecstasy	17,5kg	R6 000 000
Maseru Bridge	2002-07-20	Cannabis (dagga)	10 kg	R10 000
Johannesburg International Airport	2002-07-26	Cannabis (dagga)	20 kg	R20 000
Johannesburg International Airport	2002-08-07	Cannabis (dagga) – compressed	15 kg	R15 000
Durban International Airport	2002-09-13	Watches	+/- 2 500 pieces	
Johannesburg International Airport	2002-11-08	Narcotics – cocaine	5,2 kg	R2 200 000
Johannesburg International Airport	2002-12-09	Narcotics – cocaine	1 kg	R450 000
Beit Bridge	2002-12-18	Narcotics – dagga	2,3 kg	R2 300

Trade in endangered species

Enforcement of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), also known as the Washington Convention, is the responsibility of the parties and their respective management authorities, customs and police services. Enforcement is also an important focal activity of the CITES secretariat, which regularly prepares a report on infractions or the types of fraud/smuggling employed. Where serious infractions exist, the standing committee may take appropriate measures to remind states of their obligations.

The extent of illegal trade in CITES-listed species is by nature difficult to evaluate. One of the secretariat's priority activities is to assist national authorities designated by parties in combating illegal trade, in co-operation with the national authorities designated by the Parties to the Convention, Interpol and the World Customs Organisation.

Customs is uniquely positioned to aid in the enforcement effort, due to the creation of anti-smuggling teams, and the existence of customs inspectors at the various ports of entry, which all operate on a risk-based approach, as directed by the customs risk model.

Anti-smuggling teams

The successes listed above are mainly due to the introduction of anti-smuggling teams which enable Customs to interdict different forms of smuggling. The unit has a capacity of 338 (team leaders, senior officers, anti-smuggling officers and risk analysts) posted at 20 branch offices.

Post-clearance audits

The capability to carry out post clearance audits and joint audits with the Compliance division is developing. Post-clearance audit focuses on persons involved in the international movement of goods and is an effective tool for customs control. It allows customs administrations to facilitate trade through simplified procedures and enables a comprehensive picture of the traders supply chain.

Industry task teams

The introduction of industry task teams (previously the Mobile unit), especially in the liquor and tobacco industries, has resulted in improved controls and trade compliance levels. In these industries, SARS benefits from specialists seconded by industry. However, SARS will employ such specialists directly in the near future.

Cross-border operations

Verification exercises have been carried out with the EU and US customs to improve cross-border operations.

Customs investigations, intelligence and prosecutions

While special investigations are currently being carried out in cooperation with the enforcement division, capacity will be built to support operational, strategic and tactical intelligence activities.

Legislation and litigation

The importance of effective and practical legislation, coupled with a robust litigation unit, is pivotal to executing on SARS mandate and promoting high levels of compliance in South Africa. To this end the Law Administration division provides critical competence in the drafting of tax legislation as well as in representing SARS in the litigation of tax appeals, enhancing relations with other administrations through the formulation of double taxation agreements, memoranda of understanding and mutual administrative agreements and in providing business certainty through the issuing of specific issue rulings and general guidelines.

Tax policy framework

The imposition of taxes is a tax policy instrument. This implies that SARS has to ensure that administrative actions and legislative interpretations are consistent with the spirit and letter of the law within the broader tax policy framework of government. This context frames the higher purpose for SARS activities and imposes an obligation to reduce both compliance burdens and administration costs as well as create business certainty so as to support foreign direct investment and employment. Further, the various legislative instruments imposed must be optimised against the cannons of taxation, taking cognisance of necessary trade-offs. These include neutrality, simplicity, certainty, equity and efficiency.

Legislative changes

The 2002/03 tax proposals gave rise to the following set of legislative changes.

Primary legislation

Taxation Laws Amendment Act, 2002

Important amendments were introduced to simplify the taxation of employment income by limiting deductions against income from employment. Another major new amendment was the insertion of section 12H into the Income Tax Act, which provides for the deduction of an allowance from the income of an employer in respect of learnership agreements entered into with the learner.

Other amendments included:

- The codification of the remaining budget proposals
- Revised public benefit organisation (PBO) deductions
- Provisions for the detention of counterfeit goods
- Provisions relating to dispute resolution

THE SARS BUSINESS *(continued)*

Revenue Laws Amendment Act, 2002

- Transfer duty on the sale of residential property companies
- Review of controlled foreign companies' (CFC) provisions and foreign dividends
- Provisions relating to foreign currency
- Revised corporate rules
- Provisions relating to biofuels
- Introduction of provisions to enable the operation of one-stop border posts
- Provisions relating to agents

Amendments to the SARS Act

This Act proposed the following:

- Alignment of the provisions with the PFMA
- Appointment of the Commissioner by the President
- Disestablishment of the SARS Board and establishment of specialist committees
- Funding of SARS
- Alignment of SARS Act with Government Employee Pension Fund (GEPF) rules

Subsidiary legislation

Regulations issued

The following regulations were issued:

- Unemployment insurance regulations and caps
- PBO regulations (Peace Parks, scholarships)
- Prescribed rates of interest and official rate increases

Customs notices and rules

81 Customs notices were issued

13 Customs rules amendments

International treaties

International tax treaties

During the financial year, double taxation agreements (DTAs) in the process of renegotiation with countries in Africa and the rest of the world were as follows:

Africa

- Botswana
- Ghana
- Morocco
- Tanzania
- Ethiopia
- Malawi
- Swaziland
- Zambia

Rest of the world

- Brazil
- Germany
- Estonia
- Kuwait

- Netherlands
- Qatar
- Spain
- Portugal
- Saudi Arabia
- Turkey

Tax treaties were ratified in South Africa with:

- New Zealand
- United Kingdom

Tax treaties were signed during the financial year with:

- Belarus
- Rwanda
- Oman
- United Kingdom

The majority of these treaties had been negotiated but required extensive change due to:

- Implementation of gender neutral text
- Amendment of the South African tax system
- Changes to international models

Agreements regarding mutual assistance between customs administrations were also negotiated during the year. The position is as follows:

Negotiations

- Angola
- Iran

Signed during the year

- Mozambique
- Zambia

Ratified in South Africa

- Czech Republic
- Netherlands
- Mozambique
- Zambia

An agreement regarding mutual and technical assistance in respect of VAT was negotiated with Lesotho.

Training and international assistance

During the year under review SARS chaired the Working Group on Tax Treaties and Direct Taxes and facilitated workshops dealing with tax treaties and transfer pricing. In addition, country-specific workshops on international taxation were conducted for Nigeria, Lesotho, Swaziland, Namibia and Zambia. VAT assistance was given to Lesotho and Botswana.

Law interpretation

The following interpretation notes were issued to provide the tax paying community with certainty regarding administrative application of certain legislation:

THE SARS BUSINESS *(continued)*

Interpretation notes

Direct taxes

- Interpretation Note 9 – Small business corporations
- Interpretation Note 10 – Skills development levy: Exemption: Public benefit organisations
- Interpretation Note 11 – Trading stock: Assets not used as trading stock
- Interpretation Note 12 – Recoupments: Assets in a deceased estate
- Interpretation Note 13 – Limitation of deductions for employees and office holders
- Interpretation Note 14 – Allowances, advances and reimbursements

Indirect taxes

- VAT in the banking industry
- Apportionment of input tax in respect of VAT

In addition, SARS also released the following guides and brochures

Direct taxes

- Capital gains tax (CGT) – Transfer of residence from trust or company to individual
- Small business corporations
- Expatriate employees
- Fringe benefits in the public sector
- Members of parliament (updated)
- Unemployment Insurance Fund (UIF) contributions

Indirect taxes

- VAT News No 19
- VAT News No 20

Rulings issued

SARS issues rulings in order to provide certainty regarding administrative interpretation of statute.

Type	Number issued	Turnaround time
Direct taxes	57	120 days
Indirect taxes	50	36 days

Dispute resolution process

The development of a new dispute resolution procedure was initiated to contain the incidence of litigation and to offer a speedier resolution process. This was the result of extensive consultation and deliberation.

Litigation

	2002/03	2001/02
Appeals won	18	12
Appeals lost	10	2
Cases withdrawn	21	41
Cases postponed	18	31
Cases conceded	18	10
Cases settled	37	34
Referred back	0	6
Awaiting judgement	2	6
Cases on hand at 31/03/03	113	121

High, Constitutional and Supreme Court

	2002/03 Non-customs	2002/03 Customs	2002/03 Total	2001/02	% change
Cases currently pending	8	248	256	140	83
Cases pending before Constitutional Court	0	0	0	0	
Cases pending before the Supreme Court of Appeal	9	4	13	20	(35)
Cases settled	0	8	8	15	(47)
Cases successfully defended	13	25	38	38	0
Cases lost	4	7	11	13	15
TOTAL	**34**	**292**	**326**	**226**	**44**

Tax avoidance unit

A specialised unit was formed to address issues of tax avoidance and aggressive tax planning schemes. Achievements during the year included:

- A directory of tax avoidance schemes was finalised and published internally on a need to know basis due to the sensitivity thereof
- The following types of schemes were dealt with:
  - Film investment industry (section 24F of the Income Tax Act, 58 of 1962)
  - Structured finance transactions in financial services industry which involved nine taxpayers
  - These investigations resulted in the collection of more than R1 billion
- Compiled an interim research document on the proposed introduction of the tax shelter legislation

International relations

Donor interventions

DFID – UK

The purpose of the project is:

To transform SARS into an organisation that is fully capable of supporting Government's socio-economic goals and to contribute to the tax policy unit within the Ministry of Finance

To date a substantial amount of work has been effected in enhancing the Customs capability.

Other support included:

- **Peer review – David Garlick**

  The purpose of this review was to make an objective, strategic assessment of progress of the transformation programme by an independent yet supportive organisation and highlight lessons learned from the process. SARS is especially appreciative of the support by the Director-General, Mr Mike Eland of Her Majesty's Customs and Excise (HMCE).

- **OPR – PWC (Gill Sivyer and Sandra Hadler)**

  The objectives of the review was to conduct an annual review in accordance with section 7 of the DFID SA Project Cycle Management Responsibilities and Systems Guidance (October 1999). The review focused on Project strategy and design, while taking account of the monitoring reports which had to have the "outputs to purpose level" of the Project Framework as its principal concern.

- **HMCE REVIEW – David Hesketh and Danny Pedley**

  The gentlemen are managers in HMCE who, inter alia, reviewed the consultants that have been seconded from HMCE to SARS under the DFID project.

AusAid

AusAid provided technical assistance to SARS to implement substantial procurement reforms within the organisation. The consultant, Roger Webb, provided comprehensive experience, advice and material which have resulted in SARS changing not only its procurement processes but also the way it thinks about its procurement options.

SIDA – Sweden (SARAP and SESAM)

SARS has been receiving assistance from the Swedish Tax Administration (NTB) in conjunction with SIDA and WM Data to develop and use their risk-profiling SARAP module from the ESKORT suite of business solutions. The project has achieved remarkable progress within the context of SARS's transformation. The success of this project has inspired a similar transformation in customs risk management.

DANIDA – Denmark (ICRAS)

The Danish Embassy (DANIDA), in conjunction with SIDA and WM Data, developed a risk-profiling business solution for Customs, based on the same principles as SARAP and SESAM. The project was recently implemented and is already achieving remarkable success.

Study visits inbound

- **Ghana –** information exchange and sharing in the areas of in law administration, tariff and valuation, customs policy and operations and Siyakha
- **Rwanda –** sharing of knowledge and experience related to income tax administration
- **Nigeria –** the following aspects were addressed during the visit:
  - National guiding principles which underpin all taxes in the tax system, process of tax legislation, codification of tax legislation and amendments, relative importance of direct and indirect taxes (as regards revenue yield, number of taxes, cost of administration etc.), relative importance of customs and export duties vis-à-vis income and property taxes or local equivalents, organisation, structure and functions of the tax authority, computerisation of tax administration
  - Tax information management (data sourcing, collation, analysis, access, retrieval, networking and utilisation)
  - Taxpayers' attitudes to the payment of taxes
  - Taxpayers' attitudes to the utilisation of tax revenue
  - Periodicity and process of tax reform
- **Ethiopia –** general organisation strategy, law administration and transformation
- **Olu Fasan –** Customs valuation and WTO related agreements

Outbound visits and study tours

ILEA – USAID funded

- Law Enforcement Executive Programme – six week course: four SARS candidates attended
- Land Border Interdiction – one week course: four SARS candidates attended
- Wildlife – one week course: one SARS candidate attended

DFID-funded

- Excise study tour – one week course: six SARS candidates attended
- WCO working group meetings – five meetings: 10 SARS candidates attended

SARS assistance

Botswana

A staff member has been seconded to Botswana until September 2003 to assist with the implementation of VAT. SARS has hosted numerous visits from Botswana VAT auditors to gain practical exposure and greater understanding of the South African VAT system and its administration.

Lesotho

A number of SARS trainers with VAT expertise have been sent to Lesotho to enhance their VAT skills. They are currently collaborating with our Bloemfontein office to assist on VAT issues including auditing, training and collections.

The vision for support services is that of a strategic partner, enabling the core business by anticipating and appropriately responding to divisional needs in a timely manner

Support services

Human resource (HR) division

A key aspect of the functioning of HR is to fulfil SARS's strategic intent to be a preferred employer. Thus the policies and strategies for change management and communication, collaboration with unions, skills enhancement and employee recruitment and retention underpin this philosophy.

Notable achievements by the division during the period were:

- Restructuring of the HR division
- Launched technology modernisation to enable employee self service
- Implemented a system of low cost medical aid
- Established a medical boarding panel

Personnel cost as a percentage of administration cost

SARS personnel costs represent approximately half of total administration costs. This compares favourably with best practices where progressive administrations indicate personnel costs as much as 75% of total administration costs.

Item	1999/00	2000/01	2001/02	2002/03
Personnel expenditure	1 212 626 000	1 129 966 000	1 528 958 000	1 790 023 000
Cost of administration	2 314 144 000	2 149 411 000	2 818 084 000	3 868 910 000
Personnel expenditure as % of administration costs	52,4%	52,6%	54,3%	46,3%

However, it is worth considering that the low proportion of personnel costs may reflect:

- Critical capacity gaps in terms of the optimal staffing level for SARS, and/or
- The focus on major investments in other areas such as transformation (especially physical infrastructure) and technology solutions

Employment equity

SARS is committed towards ensuring a representative workforce and an environment supportive of gender and racial diversity. To this end, recruitment processes, advance equity criteria and specific organisational interventions are implemented to attract, train and retain valuable employees from previously disadvantaged backgrounds. Specifically, the implementation of the Siyakha transformation programme has enabled the organisation to improve gender and race representation at all organisational levels. These improvements are reflected in the graphs below indicating the race workforce profile.

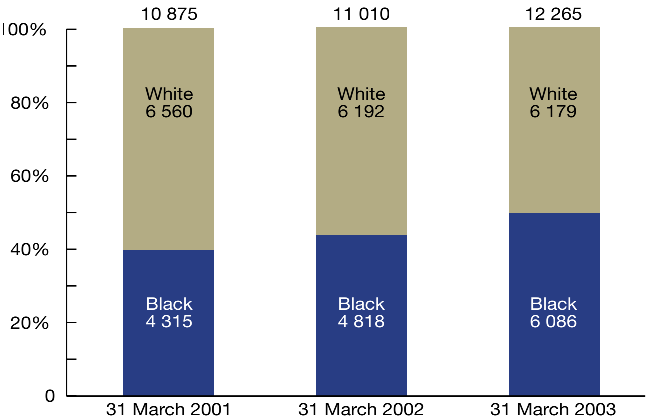
Race workforce profile

The average growth of black representation was five per cent per annum. The average attrition rate was 5 per cent. Whilst the employee headcount increased by 1 255 (11 per cent) during the reporting period, the overall white representivity dropped. This reflects that the new intake was predominantly black.

SUPPORT SERVICES *(continued)*

Black profile in the past three years

The demographics of the organisation improved as a result of the transformational opportunities in the form of the Siyakha restructuring programme and other initiatives including a focused recruitment strategy. Since March 2001, black representation increased by 41 per cent. The 50 per cent black representation for the 2003 year consists of 36 per cent african employees, eight per cent coloured employees and six per cent Indian employees.



For the period under review:

- 79 per cent of new appointments were black recruits of whom the majority was African (63 per cent)
- 62 per cent of promoted employees were black
- 39 per cent of 654 employees who left SARS were black

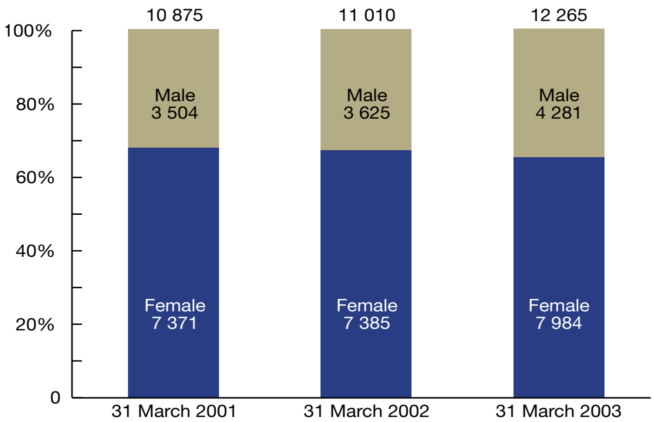
Since March 2002, black representation increased from 35 per cent to 39 per cent in senior and managerial ranks, from 41 per cent to 46 per cent in professional ranks, from 35 per cent to 42 per cent in technician ranks and from 43 per cent to 48 per cent in clerical ranks.

The table below illustrates the progress made in black representation in SARS

Organisational/Staff occ level	March 2001	March 2002	March 2003
Management staff	40%	39%	44%
Supervisory staff	22%	26%	36%
General staff	42%	45%	51%
All staff	40%	44%	50%

Gender workplace profile

The SARS gender profile illustrates an organisation that is responsive to the advancement of females at all organisational levels. SARS female representivity compares very favourably to the 36 per cent indicated in the Employment Equity Commission Report of 2002 although there was a drop in the percentage of SARS female staff from 68 per cent in 2001 to 65 per cent in 2003. This is illustrated by the following graph that reflects a bias towards females in the total complement of staff.



For the period under review:

- 53 per cent of the 1 908 appointments were female
- 58 per cent of promoted employees were female
- 63 per cent of the 654 employees who left SARS were female

Since March 2002 female representation increased from 30 per cent to 32 per cent in senior and managerial ranks, from 35 per cent to 37 per cent in professional ranks and from 53 per cent to 57 per cent in elementary ranks.

Disability workforce profile

- As at 31 March 2003 0,8 per cent (98) of the total workforce comprised disabled persons
- The majority of employees with disabilities were employed in the clerical occupation category

Training and development

The skills of SARS staff are critical in ensuring an effective organisation and in enhancing the credibility of the administration. In this respect the organisation annually invests in upgrading technical, operational and management skills of staff. The following highlights key achievements during the year:

Business architecture development

As part of the broader HR division's efforts to enhance divisional capability, Human Resource Development (HRD) reviewed its operations and capability to deliver. This exercise involved re-engineering of the current processes, designing a business structure that would support the innovated processes and the development of job profiles necessary for the fulfilment of the tasks within the business structure. The high level process includes training needs analysis, planning, research and design, training delivery, assessment and bursaries.

Elements of the supporting Management Information System, which needs to be developed, have been identified and will generate the required reports for decision making.

Use of technology to store and manage aspects of the HRD environment such as products, budget/expense tracking, and capacity planning will enhance performance. This improvement in information gathering and storage, combined with effective reporting tools, will allow decision makers to make decisions based on reliable data, making it possible to substantiate budgets, expenditure and strategic initiatives. This will result in a shorter planning cycle and will provide the data to make accurate and meaningful decisions based on past performance and outcomes. The proposed implementation plan for the processes and the system has end of August 2003 as the target date.

Leadership Development Programme (LDP)

The Graduate Institute of Management Technology (GIMT) has been appointed as a partner for the implementation of the organisation's Leadership Development Programme (LDP). The programme is one of the initiatives for leadership development and talent creation at SARS. The target for this programme is managers operating at management level, i.e. above team leaders and those that have recently assumed management responsibilities but with high potential for accelerated development. A formal support structure in the form of mentorship or coaching will be provided to candidates to ensure successful completion.

The programme is based on the principles of action learning, therefore real work problems will be researched and solutions implemented, hence the involvement of immediate managers of these individuals is emphasised and critical. The first group session will be held in June and a total of 28 candidates have been selected for participation in this programme.

Continuous professional development

Internal capacity for the successful implementation of the new processes has been identified as a constraint for the current HRD personnel. Continuous professional development programmes, including internal consulting and assessor training, have been identified. All area training co-ordinators will undergo the internal consulting training, with the first group starting in April. This training will be extended to all HR consultants nationally. All current trainers are also being trained as assessors.

Impact evaluation

One of the processes that have received attention during the re-engineering of HRD is that of assessment. Capacity in this area is critical to ensure that the return on investment for training can be determined. Capacity is currently being developed to conduct impact analyses in respect of business and employee performance. Commencing in February, this process has been applied to the team leader training programme and was finalised by end of March. Ten people have been trained in HRD as part of building internal capacity and they worked with a consultant as part of action learning and skills transfer in the above-mentioned project.

Induction programme

The objective of this induction programme is to provide a comprehensive overview of SARS for new employees. The programme will, amongst other issues, describe policies, procedures, processes, structures, strategies and key initiatives for both operational and support business areas of SARS. This will be done by consolidating existing information and documenting information that is not yet sufficiently captured, in a format that is easy to understand by someone who has no SARS background.

Individual development plans (IDP)

HRD was tasked to facilitate the development of IDPs for all employees. All managers and team leaders in the core business divisions were trained on how to develop, track and review IDPs. To this end, 96 per cent of employees in these divisions have IDPs. The results of this process were used to develop the regional training plans for 2003/04.

The second phase of this initiative is planned for 2003/04, aimed at bedding down the process. This will include implementation for the support services divisions' IDPs and the assessment of progress and provision of additional support where already implemented. This will assist in entrenching the culture and discipline of review by all stakeholders.

South African Qualification Authority (SAQA) alignment

A new material design template was developed to comply with legislative requirements. All the new training materials for Siyakha and 60 per cent of existing ones were converted to this template.

National training plan

A national training plan was developed after a training needs analysis process and was signed off by business divisions. Ninety-six per cent of the planned training was implemented.

Dismissals for March 2002/03 financial year

Action	Number of dismissals
Dismissal: Fraud/bribery	28
Dismissal: Attendance	14
Other	21
Total	63

Collective bargaining

Annual substantive negotiations were conducted within five negotiation sessions, with a settlement of 9 per cent salary increase that was in line with the public and private sector.

Job (Hay)-grading related backpay

On account of several review processes since 1999, job grades of employees have been retrospectively adjusted; in most instances, to 1 January 1999. Human resources completed the backpay process relating to the retrospective job grade adjustments, excluding backpay emanating from the job-grading arbitration process which should be completed by the end of September 2003. Adjustments (backpay) of annual bonuses have not been included in the aforementioned exercises and will be executed in terms of a separate exercise that is expected to be completed by the end of the year. Provision for these payments has been made on the budget for the current financial year.

Employee wellness programme

The employee wellness programme "wellness@work" has become well established and numerous employees are utilising the wellness offerings. The major reason for contracting the wellness programme, when it was initially launched in 2001 was work and family-related problems and was recently extended to assist with relationship and marital problems. An activity-based HIV/Aids programme was initiated and will be enhanced in the new financial year.

Staffing plan

The key elements of the staffing plan have been defined. The staffing plan includes a staffing model which incorporates demand-side modelling. The prototype model also contains a PDI module which provides information on PDI projections and a module which determines the impact of recruitment between job families. Four key constraints to the way forward have been identified. These constraints include:

SUPPORT SERVICES *(continued)*

- Detailed business process and timing data
- Definition of volume drivers
- Definition of job family relationships
- PeopleSoft data cleanup

The next steps to progressing the staffing plan include facilitating the set-up of business resources to address constraints for the way forward.

Decision making matrix

The delegation of authority project is aimed at improving clarity of roles and responsibilities in HR. This will lead to more effective delivery of service to business. The tool being used is RASCI (responsible/accountable/support/consulted/informed) and to date it has been deployed on key projects that are being rolled out in support of the HR business plan, which directly supports the achievement of SARS's overall objectives. The next step is to employ RASCI into the core HR process areas to clarify roles and responsibilities of regional and head office HR staff, as well as inform Service Level Agreements (SLAs) with business moving forward. This work will be completed in the coming year.

Siyakha transformation programme

Much of the HR resources were focused on supporting the roll-out of Siyakha, first in the Western Cape and subsequently in Gauteng. Key interventions included:

- Appointment of staff, management and specialists
- Absorption of remaining staff into vacant positions
- Conducting proficiency tests to support staff placement and
- Facilitating labour relations to support the transformation programme

Specifically:

- **Roll-out in Gauteng**
  Middle management appointments
  We have successfully filled 29 of 38 posts from 236 applications.
- **Roll-out in Western Cape (Bellville and Cape Town)**

Team leader and specialists placements

We successfully filled 237 new positions, representing the two levels from a total of 2 761 applications. These were in excess of 1 000 employees. The remaining 955 employees were absorbed with approximately less than 10 employees voicing their displeasure with the process and outcome.

Siyakha proficiency tests

HR projects managed the successful writing of proficiency tests in KwaZulu-Natal 12 months after the Siyakha roll-out. The results from these tests, as well as the various regions of customs, were analysed and used to determine any resultant grade changes, salary increases and red-circling requirements. The resulting changes were then implemented via PeopleSoft.

Technology services department

- Concluded skills audit for the technology service department from November to January 2003
- Facilitated job description writing and the grading process
- Concluded the appointment of all type one positions (both senior and middle management levels)
- Concluded the absorption process of contract employees

Staff turnover

The staff turnover rate was 5,0 per cent (2001/02: 6,4 per cent) and is acceptable against the market average. However, the loss of audit staff to the private sector remains an area of concern.

Education level

Recent years has seen SARS increase the number of graduate/tertiary level appointments. This is vital when considering the enormous challenge posed in effectively and consistently applying complex legislation as well as in entrenching the sophisticated techniques of risk profiling. Most of these appointments have occurred in the customs and enforcement areas. In addition, the processing capacity has also been enhanced with lower-level skills to cope with the increased workload.

The following table illustrates the educational profile of the existing workforce.

Master's degree	0,07%
Tertiary education	26,59%
Senior certificate	49,79%
Junior certificate	1,65%
Less than junior certificate	0,94%
Not indicated	20,95%

Communication

During the year, the SARS strategic communications team underwent substantial transformation to increase delivery and service to the organisation. This process resulted in the distinct subcomponents of strategic marketing, internal communications, media liaison and the newly established corporate social responsibility unit.

Reinforcing SARS's public image through extensive and constant strategic and tactical media liaison throughout the year were focused awareness campaigns during Budget Week 2003. This year, along with SARS tradition of printing and distributing tax brochures during the week, Budget Week was accompanied by a national campaign on delivery and benefits to the nation.

The launch of the service monitoring office in October 2002 was complemented later in the year with the roll-out of workshops on dispute resolution process and increasing tax awareness.

Internally, communications have focused on improving organisational climate and awareness through the e-mail and intranet. Strategic campaigns utilising integrated posters, SARS's internal TV service and printed quarterly newsletters have focused on organisational performance, dispute resolution, and the SARS Wellness Programme to assist employees and client service training and campaigns.

The Siyakha project team has ensured ongoing communication to focused groups via a range of media, including industrial theatre to support cultural change during transformation.

A SARS division to manage the corporate social responsibility programme was established with the goal of investing skills and resources back into communities.

Following the commitment of being a strategic partner to the core business by proactively addressing critical needs, the Finance division has not only consolidated but also significantly improved the core processes, internal controls and financial reporting.

Finance division

SARS
At Your Service

FINANCE DIVISION

Key achievements during the year included:

- Received the following audit opinions for the year ending 31 March 2003:
  - Own Accounts – unqualified
  - Administered Revenue – qualified, except for opinion
- Increased levels of executive reporting to facilitate decision making
- Development and implementation of focused national health and safety management
- Development and implementation of a progressive SARS black economic empowerment strategy that takes cognisance of national imperatives
- Promotion of financial governance through policy review and enhancement of financial capability
- Completion of the scoping phase of the proposed financial information management system. This project utilises SAP as the enabling technology
- Implementation of progressive cash and expenditure management which focuses on effective and efficient resourcing and asset utilisation, cash management, cost reduction and procurement efficiencies
- Successful transformation of the organisation's procurement activities from June 2002, incorporating flexibility whilst adhering to good governance

Significant progress has been made in strengthening the working relationship with the Office of the Auditor-General through both top-level liaison and the establishment of working groups. This has facilitated the audit process and contributed to a more focused strategy to address risk areas.

Programmes

Proposed financial information management system

The objectives of the proposed financial information management system, which uses SAP as the enabling technology, are to:

- Implement SAP for SARS Own Accounts (including procurement and asset management)
- Consolidate all incoming revenue payments into a single receipting platform within SAP
- Investigate the feasibility of moving the tax account into SAP
- Integrate the proposed customs system accounting functions into SAP
- Facilitate the migration to GAAP compliance for SARS Administered Revenue

The scoping phase of the project was completed by year end.

GAAP migration

SARS Administered Revenue currently conforms to Generally Recognised Accounting Practice (GRAP), as promulgated, and effective up to 31 March 2003. SARS will be Generally Accepted Accounting Practice (GAAP) compliant by 31 March 2004. A migration plan has been defined to ensure GAAP compliance by the target date.

Procurement reform

The procurement reform project, initiated in June 2001, culminated in ministerial approval thereof on 4 April 2002. Procurement reform was implemented, with effect from 1 June 2002. In essence, this reform incorporates sufficient flexibility to ensure minimum turnaround times and more appropriate delegation of authority, whilst complying with good governance. A key element is tender evaluation committees which were formed to be convened as and when required (compared to the set rigid time requirements of the SARS tender board).

FINANCE DIVISION *(continued)*

Co-sourcing

The business planning process for 2003/04 (initiated in January 2003) identified, inter alia, that the resources in facilities and asset management had to be supplemented by 126 staff, to render the required level of service to business. In this instance, management needed the assurance as to whether building internal capacity or co-sourcing is the preferred model, in terms of best practice. This will be addressed in the new financial year.

Sources of funding

The primary source of funding is the grant from National Treasury. This is supplemented by:

Public private partnerships (PPPs)

At the MTEC presentation in September 2002, SARS was advised to pursue funding via the PPP mechanism for the customs scanner and appropriate technology projects. SARS has engaged with the PPP unit at National Treasury and is in the process of establishing a PPP for the customs scanner project.

Donor funding

During the period under review, SARS received technical assistance and training from SIDA (Swedish International Development Agency), DFID (UK Department for International Development), AusAid and DANIDA.

Other income

This comprises interest received on the investment of temporary surplus funds and the current account and the commissions earned on the collections of the skills development levy and UIF.

Administration expenses to net revenue percentage (cost of administration)

	2003 **R'000**	2002 R'000
Administration expenses	**2 878 484**	2 332 625
Net revenue collection	**282 180 860**	251 958 579
Administration cost	**1,02%**	0,93%

Procurement

	2003 **R'000**	2002 R'000
Total procurement spend expensed	**1 105 747**	807 186
Total procurement spend as percentage of expense	**38,4%**	34,6%
Total procurement spend capitalised	**199 430**	118 735
Total procurement spend	**1 305 177**	925 921

Top 10 suppliers

	R'000
Department of Public Works – Upgrade border posts	54 000
Lithotech Afric Mail – Printing of tax forms	64 000
Monitor consulting – TOR GAP Consulting	40 000
Telkom – Telephone and data communications	39 000
Comparex group – PABX and call centre software	24 000
Sihan Computer Services – IT consultants	18 000

Top 10 suppliers *(continued)*

	R'000
- Merafe Zen Property holdings – management and implementation of Siyaka refurbishments	17 000
- Supersonic Travel – Travel and hotel accommodation	17 000
- Studentwise Placements – Call centre staff	17 000
- NDS Specialised Services – Desktop maintenance	16 000
Total	**306 000**

Top 10 contracts awarded

	R'000
Tshole Systems Integrators Consortium – Traffic flow system	15 800
Symo Corporation – Shelving for assessment centre in Cape Town	1 500
Democratic Services – Cleaning services at SARS Head Office	923
Securicor Gray SA (Pty) Ltd – Security guard service at Project 166 Cape Town	849
ZIZO Systems – Quality management software for Customs	495
R&D Screening Technologies – X-ray machines at Head Office	392
Ndizani Technologies – Supply of magnetic cartridges	391
Accrue Technologies – Digital recorders for CCTV System at Head Office	327
Score Force Security – Security guard services at assessment centre Cape Town	323
Democratic Services – Cleaning services at assessment centre Cape Town	317
Total	**21 317**

Conformance to procurement procedures

Conformance to procurement procedures is followed up by the procurement centre on a daily basis. Potential instances of transgression are pursued immediately with the originators thereof. Corrective measures are instituted accordingly. For the period under review, there were no instances of fruitless, wasteful or irregular expenditure.

Conformance with GAAP

- Own Accounts – The preparation of SARS Own Accounts is in accordance with GAAP requirements
- Administered Revenue – SARS Administered Revenue currently conforms to GRAP (Generally Recognised Accounting Practice), as promulgated, and effective up to 31 March 2003

Asset management

Property plant and equipment

The fixed assets register is maintained by an independent third party – Combined Systems Group – and is reconciled with the general ledger. A physical verification of assets in the fixed assets register is undertaken annually. Tangible assets are bar-coded.

Bank

Cash resources have been managed on a daily basis, with temporary surplus funds being invested on call, with two major financial institutions.

FINANCE DIVISION *(continued)*

Suspense accounts

There are no suspense accounts in SARS Own Accounts. There is only one suspense account in the balance sheet of SARS Administered Revenue at 31 March 2003, which is due to a timing difference of commission paid in respect of the sales of revenue stamps to the Postmaster-General and recoverable from SARS Own Accounts. This will be cleared after year end.

Internal audit

The Commissioner is responsible for establishing and updating business objectives and goals, implementing and maintaining cost-effective systems to ensure they are achieved and establishing and maintaining systems of governance, risk management and internal control. The core function of the Internal Audit division is to assist management in effectively and swiftly carrying out these responsibilities through assurance and consulting services. The division reports directly to the Commissioner and has unrestricted access to the chairperson of the audit committee.

The current year saw the adoption of a more expansive internal audit approach specifically in terms of internal control assessments and quality assuring the performance management system and other key organisation programmes.

The current internal audit team comprises 60 members and provision has been made to further enhance the capacity of the team to 77 members. Eighty two audits were completed in the year under review. Through these audits, control weaknesses were identified and the division facilitated the adoption of mitigation plans. These mitigation measures are subject to follow-up reviews in the year ahead.

The division suffered a series of set-backs which included:

- Suspension of the general manager: internal audit by the Commissioner
- Dismissal of a staff member for falsifying academic records

In the new year, focus will be on increasing the value added by the division. This will largely be achieved through:

- A comprehensive risk assessment encompassing the views of SARS's executive to inform the scope of internal audit work to be conducted
- Sharpening the audit approach to secure greater participation by clients
- Raising the levels of risk management consciousness in clients through control self-assessment
- Raising the levels of business and technical skills of internal audit staff

SARS is committed to investing in value-added technology solutions in order to enhance the revenue administration machinery and meet taxpayers' interaction needs. The current year witnessed an overhaul of the technology service division (TSD) and the appointment of a new chief information officer (CIO) to aggressively drive technology as a key business enabler. Significant strides have already been made in optimising current technology solutions and in defining a robust technology architecture.

Technology

TECHNOLOGY

Technology services

In a globalised world, technology becomes a key enabler in revenue and customs administration. The Technology Services Division (TSD) determines the future technology direction for SARS in support of the business strategy. TSD provides optimal technology solutions and infrastructure to enable organisational performance. During the period under review, the TSD made good progress in delivering against its stated strategic goals by achieving the following:

Enhancing technology and infrastructure

- The mainframe upgrade was successfully completed in December 2002. Based on the recommendation of an independent team and performance management consultant, SARS was advised to urgently upgrade its processing power on the mainframe. This has enabled greater system performance, productivity and turnaround times. Mainframe storage capacity was also upgraded
- As part of the overall upgrade of the SARS wide area network (WAN), bandwidth to all the major sites within the scope of the Siyakha project (KwaZulu-Natal and Western Cape) was upgraded to allow for optimal throughput and performance. The upgrading of bandwidth to all the border posts was initiated and should be complete by end of 2003. The upgrade of the VSAT technology used at the border posts for connection to the mainframe and related systems was initiated recently and allows for improved connectivity, thus enabling better electronic communication amongst offices and the taxpayer/trader community
- Upgraded hardware and migration to Windows 2000 also commenced in April 2002. A total of 4 300 workstations were upgraded to the Windows 2000 operating system environment. Microsoft released Windows XP and it was decided to investigate the possibility of upgrading to Windows XP. Currently indications are that SARS will migrate to Windows XP which is more secure and stable than Windows 2000
- Implementation of storage area network (SAN) was completed in August 2002. The benefits realised was in terms of consolidation of disk storage, centralised backups and a more efficient data recovery. It positions SARS appropriately in terms of future disaster recovery plans (DRP) and enhanced server availability and stability
- The desktop maintenance tender was published during March 2003. The tender was subsequently successfully awarded to the AMC consortium for a period of three years. It fulfils SARS black economic empowerment (BEE) objectives and ensures the transfer of skill as well as development of the BEE partners
- A comprehensive PC procurement investigation was undertaken and completed in March 2003. Plans to publish a tender are well under way

Optimising processes and business methods

- The rational unified process (RUP) methodology was acquired and adopted. The development of one system on a pilot basis (the software library system) on this methodology was successfully implemented. Test automation was successfully implemented on a number of old and new systems
- A system was developed and implemented for the collection of Unemployment Insurance Fund (UIF) contributions

- Integrated functionality for the processing of a combined PAYE, Skills Development Levy (SDL) and UIF form was developed and implemented
- Enhancement to the ITS system for capital gains tax was implemented
- All the client server systems were changed and enhanced to run on the Windows 2000 platform. Most of these systems were converted to SQL2000
- The PAYE-automated reconciliation process was developed and implemented with major additional requirements in Brakpan, Witbank, Pretoria and currently being implemented in Johannesburg
- Major enhancements were done on provisional tax and the income tax system (ITS)
- Provision was made for the submissions of VAT, PAYE, SDL and UIF returns and payments via the e-filing service providers
- As part of budget initiatives, the income tax return forms were changed both on the bulk data capture (BDC) system and for processing on the income tax system (ITS). The capture, processing and functionality for public benefit organisations were developed on both these systems
- The BDC system was enhanced to be data driven. The system maintenance and adding of new forms for capturing are now more manageable and streamlined
- A major effort was put into streamlining the uploading and processing of return and payment data to the core tax systems from the following subsystems: BDC, SARSBANK and e-filing
- The manifest acquittal system (MAS) was developed and implemented, in particular the sea modality phase. Road and air phases are still in the pipeline
- Last year also saw significant enhancements to the loose leaf tariff system. This enables the automation of a tedious and onerous paper-based reference system for customs, thus improving efficiency and customer service
- The following customs systems were developed and implemented during 2002/03:
  - The automated registration and accreditation system
  - The warehouse inventory management system (WIMS)
  - Removal in bond/removal in transit (RIB/RIT)
- In July 2002, the concept of a single registration process in SARS was proved and demonstrated in the form of a proof of concept (POC). The main focus of this project was to investigate and demonstrate the potential business benefit that could be gained by implementing a single registration process as well as a unique taxpayer identifier. Typical issues associated with these business concepts, as well as related areas internal and external to SARS, were identified and briefly investigated. The proposed new registration process will enable a single view of generic customer details as well as product-specific details. A unique taxpayer identifier will profile all the different relationships that any legal entity may have with SARS

Improving and aligning systems

The following key achievements denote TSD's progress towards tighter information security management:

- Creation of an information security structure and unit
- Appointment of the information security manager and of the IT risk manager
- International information security certification of three team members
- Executive approval of the information security policies
- Higher security awareness visibility within SARS
- Two tenders were awarded, namely encryption tender awarded for laptops and security assessment and audit tender

TECHNOLOGY *(continued)*

- The creation of IT Risk Management business unit to focus on disaster recovery. The impact analysis is complete. Procurement processes have commenced to acquire an alternate DR site, hardware, and the software that is required to provide DR capability to the SARS core business applications on the mainframe by December 2003

Increasing utilisation of information

- TSD provided effective support to the tax gap project in terms of data mining. Linkages with third-party information providers were formed and data-matching exercises conducted
- All SARS employees were given access or were enabled to communicate via electronic medium (e-mail) under the *E-mail to All* project

Improving TSD service to SARS

- Siyakha Western Cape was technology enabled and supported by TSD during its implementation. A total of 1 617 staff members were relocated within a record time of three weeks. A milestone for SARS during this period was the introduction of a contact centre in Cape Town which was enabled by way of a new taxpayer relationship management tool called Siebel which was rolled out during the Siyakha Western Cape implementation. TSD commissioned all the equipment and software and had the contact centre fully operational on 3 February 2003
- In September 2002, SARS renewed its contract/SLA with Telkom for a period of five years. This represents an enhanced service contract which allows for improved service offering such as asynchronous transfer mode (ATM) and improved pricing
- In October 2002, SARS renegotiated and concluded a three-year enterprise agreement with Microsoft. The key benefits of the contract were legalisation of the entire non-mainframe environment as well as value-added services to the value of R10 million

Enhancing skills and transformation

During the month of November 2002, a new chief information officer (CIO) position was created and filled by Mr Ken Jarvis. The CIO's mandate is twofold and entails:

- The introduction of new and enabling technologies that would yield significant cost savings, operating efficiencies and revenue collection enhancements
- Transforming the technology services division by installing a permanent senior management team
- Building appropriate capacity and achieving the right skills portfolio required by the organisation
- Achieving a 70:30 ratio between permanent and contract employees
- Implementing the appropriate employment equity policies and gender representivity
- Redefining the roles and reporting lines within the divisions

Furthermore he was mandated to ensure that a well-crafted BEE procurement policy was developed and implemented:

- In the period under review, a permanent senior management as well as the second-tier management cadre was appointed into a new TSD structure, which clearly defined new roles and responsibilities. To date a 60 per cent permanent internal capacity has been achieved

- A BEE policy was drafted and awaits approval
- While much has been achieved in restructuring the division, a challenging period lies ahead in terms of building an adaptable and responsive technology architecture that will serve SARS needs into the future

Electronic filing and payments

In July 2001, SARS introduced an e-filing service whereby VAT, PAYE and provisional income tax returns and payments could be submitted electronically through appointed third-party providers.

Further efforts will be made to expand the incidence of e-filing and e-payment because it offers SARS the potential to reduce administration and compliance costs and improve processing accuracy and turnaround for the taxpayer. This service has subsequently been taken over from the service provider by SARS and will be offered free of charge to taxpayers. It is envisaged that this will significantly increase the use of these facilities.

In 2000, SARS adopted a transformation strategy, Siyakha, to fundamentally change the business policies and processes; increase the skills levels and change the skills mix; and to introduce new enabling technologies to meet the needs and expectations of all taxpayers in South Africa.

SARS transformation

SARS TRANSFORMATION

The transformation strategy was implemented through a phased approach:

- **Short-term changes**
  Infrastructure, process improvements, teaming, skills upgrading
- **Short-term to medium-term changes**
  New business architecture, policy changes, organisational design
- **Medium-term to long-term changes**
  New automation and technology platform, continuous policy and process improvements

The first phase (Siyakha 1) entailed the establishment of new centres (service processing and compliance) and the restructuring of all customs offices without major technological changes. The new infrastructure and the accompanying redeployment of people were completed in KwaZulu-Natal in December 2001.

Between October 2001 and September 2002 all customs offices were restructured, focusing on the implementation of new management teams, new business processes such as the anti-smuggling unit, post-clearance inspection and risk-profiling teams.

The Siyakha pilot in KwaZulu-Natal was evaluated and it was evident that the impact of technology on business processes had to be addressed before the roll-out could commence in the Western Cape. This saw an expansion of the Siyakha scope to income technology (e.g. call centre), basic segmentation, entrenchment of risk profiling, greater frontline capability under pursuance of tax and customs synergies.

Siyakha was officially launched in February 2003 in the Western Cape. As part of the roll-out, SARS was able to successfully establish the following new centres and offices:

- An assessment centre was located in the Bellville area, focused on the centralised bulk processing of Western Cape transactions
- An enforcement centre was located in the Cape Town CBD to deal with all special investigation, collection, estates and audit functions
- A new 140-seater call centre was established in Cape Town to field all Western Cape calls
- Two new FMO branch offices were rolled out in Bellville and Cape Town respectively to deal with walk-in taxpayer service queries

The new SARS future mode of operations (FMO) has enabled SARS to achieve the following objectives in the Western Cape:

- New streamlined, standardised and efficient FMO processes and performance measures for all areas of the business have been implemented. Changes to the new business processes included the empowerment of the taxpayer service agents and consultants to facilitate the first time resolution of taxpayer queries and the inclusion of improvements from the KwaZulu-Natal roll-out
- New policies, procedures and training material to complement all the newly developed FMO processes were embedded through the introduction of the SARS blueprint initiative
- New user profiles and systems (Siebel and WIP) to automate and support the newly developed operational processes were implemented

SARS TRANSFORMATION *(continued)*

- People protocols were negotiated, ratified and implemented and have enabled SARS to place and absorb staff in line with the organisations employment equity objectives, flatter organisational structures and centralised scarce skills
- Local managers and staff were empowered due to a reduced reliance on consultants
- Staff was trained in accordance with their identified FMO skill deficiency requirements
- The business was prepared to deal with the transition into the FMO
- Extensive change and communication programmes were put in place to support the mindset transition in the Western Cape of staff and taxpayers

The Western Cape implementation is continuing with the roll-out of the new Cape Town, George, Worcester, Beaufort West, Paarl, Cape Town International Airport and SARS Parliamentarian service offices which are expected to be rolled out before the end of this financial year.

It is envisaged that Siyakha will be rolled out in Gauteng during the medium-term expenditure framework (MTEF) period (three years ending 31 March 2007). This will position SARS to proactively respond to environmental changes through enhanced organisational capability and enterprise-wide coherence and alignment.

Since 1994, SARS has steadily enhanced effectiveness in respect of the collection of taxes, managing the SA compliance climate and facilitating trade. The coming year will see further strides in building organisational capability, sustaining revenue performance and effecting cultural and business transformation.

The year ahead

SARS

At Your Service

THE YEAR AHEAD

SARS has made significant strides in the years following administrative autonomy, specifically in terms of enhancing processing efficiency and implementing a more focused and coherent compliance approach. Recently the implementation of Siyakha in KwaZulu-Natal in 2001 and the Western Cape in 2002 provided much needed infrastructure and processing changes to the existing environment. In solidifying this foundation, continued implementation of Siyakha, technology enablement, increasing organisational capability, further refinements in processing and the launch of a SARS corporate office (SCO) for large businesses will deliver enhanced organisational performance in the year ahead.

In the wake of a faltering and often uncertain global economy a notable challenge is posed to SARS in chasing both revenue targets and implementing successful organisational transformation.

The following factors are imposing greater pressure on SARS to anticipate and lead change in South Africa in the near future:

- The quality service revolution and the need for greater accountability and demonstrated value add regarding the use of government resources
- The influence of interactivity, proliferation of the Internet and increased volume of business transactions in the marketplace resulting from a networked, globalised world
- The changing landscape of business following the recent accounting scandals and misrepresentation in financial reporting, locally and internationally
- A renewed and changing focus on national security in the wake of the September 11, 2001 terrorist attacks on the US and the war against weapons of mass destruction, highlighting the need for a balanced trade facilitation/trade regulation role for Customs
- Regional integration, the Southern African Development Community (SADC), financial and trade liberalisation and the impact of the New Partnership for Africa's Development (NEPAD)
- A community approach to the way business, government and its citizens collaborate for a better, more effective and productive society

SARS will continue modernising and customising its frontline delivery for a better service to the South African taxpaying population and trading community. This will be effected by maximising frontline resolution, expanding call centre capability and orientating staff to the new Taxpayer Charter and service delivery commitments. Effective service will be further enabled through processing improvements and better quality controls in the assessment environment.

In seeking to optimise the compliance landscape in South Africa, SARS interventions will reflect the optimal balance between encouraging compliance and enforcing compliance by embedding the compliance strategy into the business processes, work methodologies and organisational culture. SARS will continue to reduce the tax gap by expanding the existing tax base, reducing the incidence of non-filing and late filing and proactively managing the debtors' book. This approach will be complemented by audit and investigative actions addressing high-risk segments, industries and economic transactions. Greater effort will be made to enhance audit capacity and skills, especially within the SARS Corporate Office, which will address the needs of the large corporate sector and improve their compliance level.

From a customs perspective much effort will be cast on developing a new customs solution, rewriting the customs code in addition to enhancing overall capability, entrenching risk profiling and improving supply chain management and CSI conformance.

Total business solutions that provide SARS with a comparative advantage to deliver its mandate and strategic intent will provide the frame of reference. Value-added technology investments will be leveraged to successfully position SARS as an 'electronic' revenue administration. This will entail offering multichannel interactions, migrating to an electronic transacting environment with virtual workflow capabilities and electronic document management as well as the introduction of an electronic revenue accounting and financial system.

Finally, SARS will also make strides in shifting the organisational culture to one that is professional, service orientated, exhibits high levels of ethics and integrity and which is cognisant of the broader, pivotal role SARS plays in enabling the South African economy.

During the current year, significant strides were made in creating an environment of good corporate governance. These include crystallising governance procedures and structures to achieve greater levels of transparency, responsibility and accountability.

Corporate governance

CORPORATE GOVERNANCE

The following reflects SARS compliance with governance requirements:

SARS external governance framework

The SARS external governance framework is primarily determined through two pieces of legislation, namely the SARS Act, as amended, and the Public Finance Management Act. These pieces of legislation determine the governance structure which SARS has to put in place.

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

The most important piece of legislation for governance in the public sector is the Public Finance Management Act (PFMA) (No 1 of 1999), aimed at improving financial management. The PFMA requires the establishment of an audit committee in terms of sections 51(1)(a)(ii) and 76(4)(d) which forms an integral part of the governance framework. In compliance, SARS established an audit committee during the period under review.

South African Revenue Service Act, as amended (No 34 of 1997)

The SARS Amendment Act of 2002, which effects the dissolution of the SARS Advisory Board, as contained in section 11 of the SARS Act 34 of 1997, has been promulgated in the *Government Gazette* in December 2002 as Act No. 46 of 2002. The Amendment Act not only dissolved the SARS Advisory Board in its existing format but replaces it with a new governance framework. The new framework makes provision for the establishment of specialist committees to advise the Commissioner and the Minister on any matter concerning the management of SARS resources.

Specialist advisory committees

The SARS Amendment Act provides for the establishment of one or more specialist committees to advise the Commissioner and the Minister of Finance on any matter concerning the management of SARS resources, including asset management, human resources and information technology.
Only two (2) specialist committees were constituted namely:

- Human resource specialist committee
- Information technology specialist committee

Human resource specialist committee

Role and function

The human resource specialist committee is dealt with in some detail in section 11(2) of the SARS Amendment Act, which specifies that *the specialist committee on human resources must advise:*

The Minister on matters concerning the terms and conditions of employment of any class of employees in the management structure of SARS, as agreed between the Minister and the Commissioner; and

The Commissioner on matters concerning the terms and conditions of employment of all employees of SARS, other than employees contemplated in paragraph (a)

CORPORATE GOVERNANCE *(continued)*

Membership

The following members have been appointed to serve on the human resource specialist committee: Judy Parfitt (chairperson), Lionel Human, Adolf Maphutha, Mike Olivier and Liz Thebe.

Functions of the human resource specialist committee

The functions of the human resource committee are to advise:

- The Minister on human resource issues in the management structure
- The Commissioner of SARS on human resource issues
- The representivity, costs and effectiveness of recruitment, training and promotions within SARS
- The staff establishment, retention and vacancies
- Compliance with chapter 10 of the Constitution and any other legislation applicable to SARS human resource management
- Compliance with the SARS Code of Conduct and the Client Charter
- Summaries of complaints, industrial relations issues, CCMA mediations and arbitrations, and court actions involving SARS employees
- SARS human resource policies on, inter alia, discipline, remuneration and staff benefits

Information technology specialist committee

Role and function

The information technology specialist committee's functioning is not dealt with in detail the SARS Amendment Act. It was decided that this committee must advise the Commissioner of SARS and the Minister in respect of matters related to technology and transformation. This body, consisting of external technology experts, should review SARS's technology approaches and applications.

Membership

The following members have been appointed to serve on the information technology specialist committee: Jyoti Desai, Barry Hore, Lars Ohlson, Colin van Schalkwyk and Nobusi Shikwane.

Functions of the information technology specialist committee

The functions of the information technology specialist committee are to advise on:

- The use of technologies in SARS to ensure cost-effective and efficient application thereof in support of SARS's mission and objectives in line with best practice
- The evaluation of technology-related issues of the SARS, and particularly the scope and pace of the technology transformation process
- To review and report on progress with the technology transformation process
- The acquisition, management and use of systems and technology in SARS
- Any other issues as assigned by the Commissioner

Establishment of audit committee in terms of the PFMA

In terms of section 51(1)(a)(ii) and 76(4)(d) of the PFMA, as well as the Treasury Regulations (Chapter 27.1), the following requirements must be met in respect of the audit committee of SARS:

- The Accounting Authority must establish the audit committee. The audit committee must be a subcommittee of the accounting authority, who is the Commissioner.
- The audit committee must operate in terms of a written terms of reference, which must deal adequately with its membership, authority and responsibilities. The terms of reference must be reviewed at least annually to ensure its relevance.
- SARS must disclose in the annual report whether or not the audit committee has adopted a formal terms of reference and if so, whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference. (This regulation is applicable to the 2002/03 annual report and onwards).

Membership as required in terms of the PFMA

- The chairperson of the audit committee must be independent, be knowledgeable of the status of the position, have the requisite business, financial and leadership skills and may not be the chairperson of the executive committee or a person who fulfils an executive function in SARS.
- The majority of the members of the audit committee shall consist of non-executive members appointed by the executive committee, although committee members may not all be members of the executive committee. The majority of persons serving on an audit committee must be financially literate.
- The executive authority (the Minister of Finance) must concur with any premature termination of services of a member of the audit committee.

Members of the audit committee

The following members have been appointed to serve on the audit committee: Sizwe Nxasana (chairperson), Dillip Garach, Berenice Lue-Marais and Mustaq Brey.

Authority

The Audit committee must have explicit authority to investigate matters within its powers, as identified in the written terms of reference, and must therefore be provided with the resources it needs to investigate such matters, and must have full access to information. All information given to the audit committee must be safeguarded within the ambit of the law.

CORPORATE GOVERNANCE *(continued)*

Responsibility

The audit committee must, amongst others, review the following:

- Effectiveness of the internal control systems in SARS
- Effectiveness of internal audit
- The risk areas of SARS operations to be covered in the scope of internal and external audits
- The adequacy, reliability and accuracy of financial information provided to management and other users of such information
- Any accounting and auditing concerns identified as a result of internal and external audits
- SARS compliance with legal and regulatory provisions, the activities of the internal audit function, including its annual work programme, co-ordination with the Auditor-General, the reports of significant investigations and the responses of management to specific recommendations
- Where relevant, the independence and objectivity of the external auditors (not applicable to SARS)

The audit committee must report and make recommendations to the Commissioner, report on the effectiveness of internal controls in the annual report of SARS, and comment on its evaluation of the financial statements in the annual report.

Should a report from internal audit (or any other source) to the audit committee implicate any member(s) of the executive committee in fraud, corruption or gross negligence, the chairperson of the audit committee must promptly report this to the Minister of Finance and the Auditor-General.

The audit committee must communicate any concerns it deems necessary to the Minister of Finance and the Auditor-General.

The audit committee must meet at least annually with the Auditor-General to ensure that there are no unresolved issues of concern.

SARS OFFICES

IR office

Gauteng
Alberton
Benoni
Boksburg
Brakpan
Germiston
Johannesburg
Krugersdorp
Nigel
Pretoria
Randburg
Randfontein
Roodepoort
Springs

Free State
Bloemfontein
Kroonstad
Vereeniging
Welkom

North West
Klerksdorp
Mmabatho
Rustenburg

Mpumalanga
Nelspruit
Standerton
Witbank

Limpopo
Giyane
Lebowakgomo
Polokwane
Sibasa (Thohoyandou)

KwaZulu-Natal
Durban (processing)
Durban (service centre: cash office)
Richards Bay

Western Cape
Bellville (service centre: cash office)
Bellville (processing: assessment centre)
Cape Town
George
Paarl
Worcester

Northern Cape
Beaufort West
Kimberley
Upington

Eastern Cape
East London
Port Elizabeth
Uitenhage
Umtata

Customs office

Gauteng
Germiston
Johannesburg International Airport
Johannesburg
Pretoria

Free State
Bloemfontein
Caledonspoort
Ficksburg bridge
Maseru bridge
Van Rooyenshek

North West
Kopfontein
Mmabatho
Ramatlabama
Skilpadsnek

Mpumalanga
Jeppes reef
Lebombo/Komatipoort
Mahamba
Mananga
Nerston
Oshoek

Limpopo
Beit Bridge
Groblersbrug

KwaZulu-Natal
Durban
Durban International Airport
Golela
Pietermaritzburg
Richards Bay

Western Cape
Cape Town
Cape Town International Airport
Mossel Bay
Oudtshoorn
Paarl
Robertson
Stellenbosch
Vredendal
Worcester

Northern Cape
Naroegas
Kimberley
Upington
Vioolsdrif

Eastern Cape
East London
Port Elizabeth Airport
Port Elizabeth
Quachasnek

This report is compiled in terms of Treasury Regulations 3.1.1.9 and 10, whereby the audit committee is required to report, amongst others, on the effectiveness of the internal controls, the quality of in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

Audit committee report

SARS
At Your Service

AUDIT COMMITTEE REPORT

The primary mandate for SARS was to achieve the revenue collections target as set by the Minister of Finance, against the background of a faltering global economy and heightened currency market volatility. To this end, the current period marked another year of robust revenue performance for SARS.

Introduction

For the first 10 months under review, the SARS audit committee was constituted in terms of, and functioned in accordance with section 11 of the SARS Act 34 of 1997. The audit committee was a subcommittee of the SARS Advisory Board and functioned according to a formally adopted terms of reference. From a governance point of view, SARS and the audit committee considered the impact of the PFMA on its operations, and in particular the provisions relating to the establishment of an audit committee. In this regard, SARS was of the opinion that the SARS Act is an enabling piece of legislation that does not conflict with the PFMA.

Once the SARS Amendment Act of 2002 was promulgated in the *Government Gazette* in December 2002 as Act No. 46 of 2002, the Amendment Act not only dissolved the SARS advisory board, but also effected the dissolution of the Board audit committee. A new audit committee was then constituted during February 2003 in terms of sections 51(1)(a)(ii) and 76(4)(d) of the PFMA, as well as the Treasury Regulations (Chapter 27.1).

For the remainder of the financial year, a reconstituted audit committee was in place that had its inaugural meeting on 17 April 2003 and has adopted formal terms of reference. The following members have been appointed to serve on the audit committee: Sizwe Nxasana (chairperson), Prof Dillip Garach, Ms Berenice Lue-Marais and Mr Mustaq Brey.

Internal audit function

SARS has a well-established internal audit unit that acts as an independent assurance function on the system of internal control, risk management and corporate governance for SARS. The management of the business units are responsible for the achievement of the business objectives, which includes the prevention and detection of fraud and the design, implementation and monitoring of adequate internal controls, whilst the Internal Audit unit is responsible for expressing an opinion on the adequacy and effectiveness of these internal controls.

Internal Audit reports the detailed results of its audit procedures, together with all findings and associated recommendations, to both operational and executive management. Regular reports are also provided to the audit committee.

Internal Audit has unrestricted access to all records, properties, functions and personnel necessary to effectively discharge its responsibilities.

The previous audit committee, and in particular the chairperson, had several interactions with internal audit on its audit charter and audit plan and had made several recommendations to assist SARS in adopting a more risk-based approach as opposed to the then narrower operational focus. The previous audit committee, however, did not formally meet to approve the internal audit charter and plan, given the transition from the one committee to the next. The existing audit committee has, however, had extensive discussions with Internal Audit on its audit charter and audit plan to avoid such a situation recurring in the new financial year.

The audit committee had interacted with internal audit on its audit charter and audit plan and has made recommendations in this regard. Internal Audit increased its staff capability from 55 to 77 personnel for the year under review compared to the prior year. This increase in capacity had resulted in greater audit coverage in providing an assurance function to management. The budget of this division has also almost doubled for the year under review from R13,4 million to R24,6 million. The audit committee is of the opinion that Internal Audit has sufficient resources at its disposal to meet its objectives as contained in its audit plan.

AUDIT COMMITTEE REPORT *(continued)*

The audit committee is of the opinion that a closer relationship is required between Internal Audit and the Auditor-General's Office so that a more integrated audit plan can be presented. Should the Auditor-General place greater reliance on the Internal Audit function, this could consequently bring about savings on the audit fees.

The general manager: internal audit was suspended on 30 July 2003, pending the outcome of an investigation. The Audit Committee had a special meeting to discuss this matter and satisfied itself that SARS took the necessary steps to maintain the effective functioning of its Internal Audit unit through, inter alia, the appointment of an acting general manager and other preventative steps.

Internal controls

The state of internal controls has improved in comparison to prior years. A reduction in audit issues is indicative of this position. The audit committee is cognisant of the fact that many of the remaining audit issues are systemic problems that will take some time to be resolved given the legacy of the organisation. Management has also demonstrated a commitment in resolving the remaining internal control weaknesses. The past year has witnessed the continuation of Siyakha which, together with the related business process re-engineering, is expected to positively impact the internal control environment.

While the SARS control environment still has much room for improvement, the committee acknowledges the improvements of the past year.

Monthly and quarterly reporting

Administered Revenue

Monthly reports were submitted to the National Treasury and SARB in terms of Government financial statistics (GFS) timeously and complied with all the relevant regulatory requirements.

Own Accounts

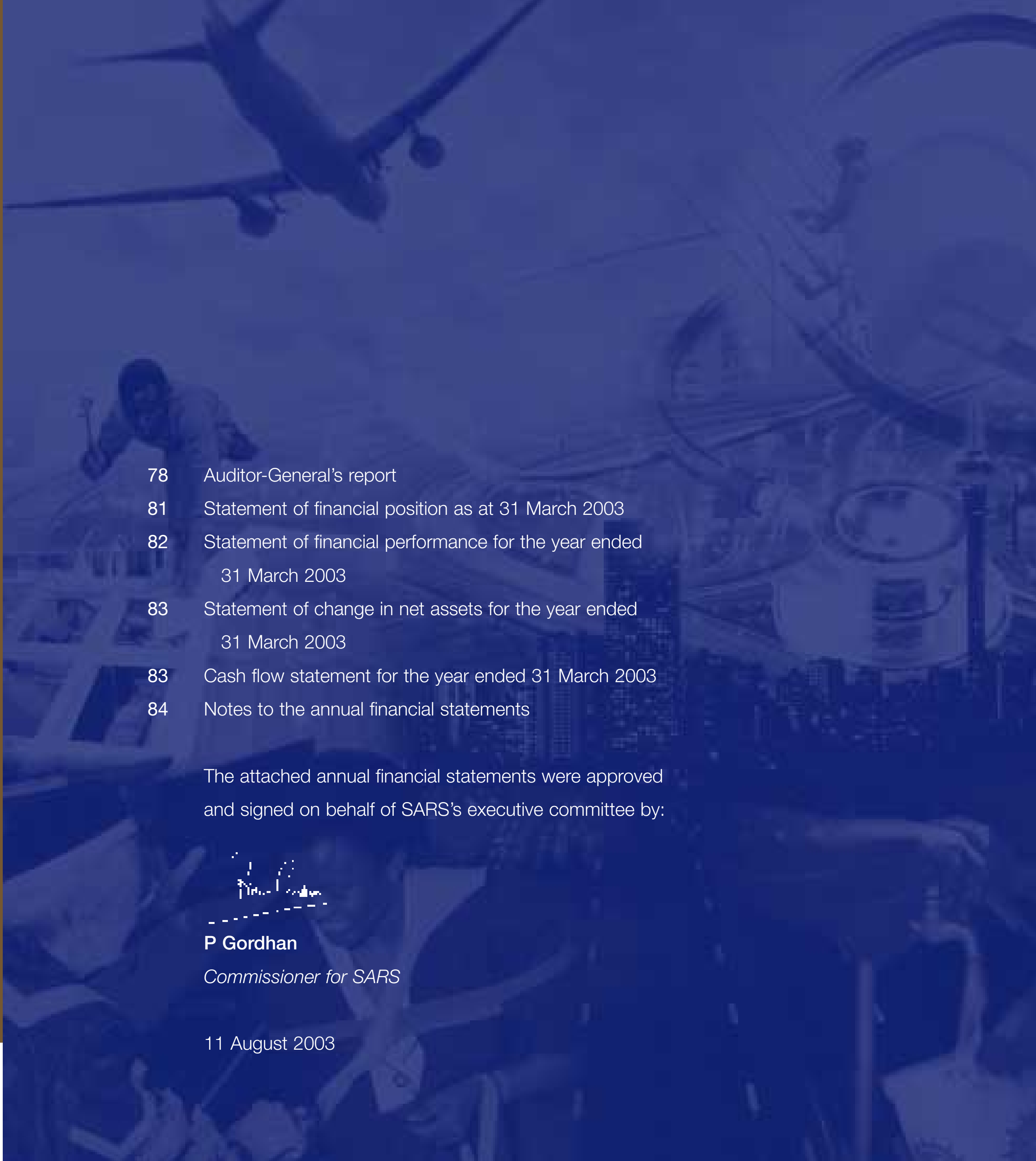
Quarterly reports to National Treasury were submitted as required by Treasury Regulation 26.1.1. These reports were submitted timeously and complied with the format prescribed by National Treasury.

Evaluation of the annual financial statements

The annual financial statements for the year ended 31 March 2003 for both Administered Revenue and Own Accounts were considered and approved by the audit committee on 22 September 2003.

Sizwe Nxasana
Chairperson – audit committee

September 2003



The attached annual financial statements were approved and signed on behalf of SARS's executive committee by:

P Gordhan

Commissioner for SARS

11 August 2003

Administered Revenue

SARS At Your Service

REPORT ON ADMINISTERED REVENUE

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2003

1. Audit assignment

The financial statements as set out on pages 81 to 90, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Nature and scope

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

While this report has been aggregated to a level I believe to be appropriate in the annual report of the accounting officer, various other reports that address other aspects of my mandate are made public from time to time. This will continue to be the practice.

I take note of SARS's view that tax compliance, in developing countries generally, and South Africa specifically, poses enormous/significant challenges. South Africa's history of economic marginalisation of the majority and an ambivalent approach to tax morality poses significant challenges to the South African Revenue Service (SARS). The development of institutional capability to deal with such a poor compliance history will of necessity be a process that will require substantial changes to and development of systems and processes. SARS has, over the past few years, made good progress in establishing the organisation, commencing its transformation programme and laying the basis for ongoing development and improvements.

In undertaking the audit I am mindful of South Africa's legacy in respect of tax compliance and institutional capacity to deal with these challenges.

3. Qualification

As a result of specific shortcomings in the various operating procedures in respect of revenue as set out below, it was not possible to fully satisfy myself with regard to the completeness, validity and accuracy of revenue. I could not obtain sufficient assurance by conducting alternative substantive procedures.

3.1 Excise duties and fuel levies

The major control measure ensuring that excise duties and fuel levies are fully and accurately disclosed to SARS is the verification of documentary proof. The inspections performed by SARS at various branch offices were, however, inadequate or not performed at all. The Commissioner advised that measures taken, including the implementation of duty at source, are focused to minimise this risk.

3.2 Tax records

The availability of tax records and source documentation was problematic, as selected documents or tax records included in audit samples were not made available on time or at all, which resulted in a limitation of scope. Some of the documents and copies thereof have only been made available to my office after the branch office audits had been finalised. In the interest of timely reporting, I have decided not to conduct any further audit work in this regard. The Commissioner advised that there is a drive to deal with this problem through the gradual implementation of an electronic document management system.

3.3 Penalties and interest on customs

A concern is the non-compliance with the requirements of section 39 (3) of the Value Added Tax Act, 1991 (Act No. 89 of 1991) in respect of the late payment of deferred VAT. I am of the opinion that the removal of the defaulters from the deferment scheme would not address the non-compliance with the applicable section of the VAT Act. The Commissioner reports that new guidelines will be given to officers to strictly comply with the provisions of the Act.

4. Qualified audit opinion

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of SARS: Administered Revenue at 31 March 2003 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

5. Emphasis of matter

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Assurance process

During the transformation of SARS, specifically in the last three years, SARS has placed a higher emphasis on the assurance process as a whole. By the nature of this change of emphasis several challenges had to be managed by SARS, not all of which could be addressed at once. Significant progress has been made in addressing some of the key issues, particularly in the larger offices. Some of the remaining challenges are the improvement in management information and the consistent application of processes and procedures.

5.2 Sureties

Guarantees and bonds are issued by financial institutions in favour of SARS for customs and excise duties payable. For some duties the value of the bond to be held is prescribed, whilst for other duties, the value of the bond is determined based on operational needs and current or historic policies of SARS. Sufficient information and evidence could not be obtained by my office to ensure the existence and validity of these sureties. The Commissioner has taken note of this and advised that specific measures have been put in place to manage the debt owed to SARS. The verification of sureties is an ongoing part of these efforts.

5.3 Internal audit

5.3.1 Reliance on internal audit

In certain instances limited reliance was placed on work done by the internal audit section relevant for external audit purposes, as working papers, supporting documentation and audit reports were not provided or were incomplete.

5.3.2 Non-compliance with laws and regulations

Neither the one-year plan for the year under review nor the rolling three-year strategic plan of internal audit was approved by the audit committee at year end. Furthermore, the revised internal audit charter was also not approved by the audit committee at year end as required by section 51(1)(a)(ii) of the PFMA and paragraph 27.2.6 of the treasury regulations issued in terms of the PFMA.

5.4 Weaknesses in internal control

Various internal control inadequacies, the following of which were the most significant, were brought to the attention of management during the course of the audit:

- Registers – Deficiencies regarding the completeness and accuracy of certain registers in respect of various customs and excise duties were found. The Commissioner advised that the management control programme will be better enforced to mitigate these risks.
- Unfinalised IRP501 reconciliations – The major control ensuring that PAYE deducted by employers is fully disclosed to, and received by, SARS is the performance of reconciliations of the IRP501 forms. At year end approximately 64 510 IRP501 returns were outstanding for the period from 2000 to 2002 and 47 765 IRP501 reconciliations which had been received by SARS for the period 2000 to 2002, had still been unreconciled at year end. I was unable to quantify the monetary value of these outstanding and unreconciled returns as this information was not available. In his response to my management letter the Commissioner indicated that some of the reasons for these outstanding and unreconciled reconciliations were that some were under query and also that there is a correlation between the outstanding IRP501 returns and the PAYE returns.
- Receipts not processed or allocated to taxpayer accounts – All receipts had to be recorded in the account of the taxpayer from whom the payment has been received so that the taxpayer's account would reflect the total revenue collected by SARS and, accordingly, that the taxpayer's account balance would be correctly stated. At some of the branch offices visited there were significant revenue collections that remained unprocessed/unallocated to the relevant taxpayer's account. This resulted in the taxpayer's account not agreeing with the total revenue collected as disclosed in the financial statements and, accordingly, the taxpayer's account balance was incorrectly stated. The reasons for these receipts remaining unprocessed/unallocated were that the information supplied by the taxpayers was incomplete or in some instances the system did not allow the receipt to be processed to the taxpayer's account. SARS has indicated that a project that addresses the migration to the accrual basis of accounting would address the unprocessed/unallocated and unfinalised payments. The Commissioner has indicated that a significant portion of these unprocessed/unallocated receipts has been processed/allocated to the relevant taxpayer accounts subsequent to year end.

5.5 Tax evasion

Attention is drawn to note 1.4 of the accounting policy where SARS acknowledged that incidences of tax evasion and other breaches of taxation laws affected their fiduciary responsibilities. This report does not include a review of measures put in place by SARS to address this matter.

6. Appreciation

The assistance rendered by the staff and management of SARS during the audit is sincerely appreciated.

Shaukat Fakie

SA Fakie
Auditor-General

Pretoria
30 October 2003

Statement of financial position

as at 31 March

	Notes	2002/2003 R'000	2001/2002 R'000
ASSETS			
Current assets			
Cash and cash equivalents	2	**335 995**	2 699
Other assets	3	**13 002**	22 179
Total assets		**348 997**	24 878
NET ASSETS AND LIABILITIES			
Net assets			
Accumulated administered assets		**(99 352)**	(473 891)
Current liabilities			
Bank		**448 347**	497 519
Other liabilities	4	**2**	1 250
Total net liabilities		**348 997**	24 878

Statement of financial performance

for the year ended 31 March

	Notes	2002/2003 R'000	2001/2002 R'000
Taxation		**285 253 645**	251 926 469
Income tax	5	**164 565 931**	147 310 360
Value added tax/Sales tax	6	**70 149 852**	61 056 609
Fuel levy		**15 792 985**	15 110 120
Excise duties		**11 472 810**	10 573 354
Customs duties		**9 330 656**	8 632 203
Other taxes	7	**6 657 834**	6 395 831
Unemployment Insurance Fund (UIF)		**4 042 941**	65
Skills development levy		**3 352 053**	2 717 255
Air passenger tax		**324 757**	296 395
Road Accident Fund (RAF)		**17 905**	2 070
Ordinary levy		**5 130**	18 671
Import surcharge		**19**	460
Diesel refunds		**(459 228)**	(186 924)
Non-taxation		**5 521 975**	4 599 274
Departmental receipts		**4 315 849**	4 085 315
Non-tax revenue	8	**586 732**	425 460
Customs miscellaneous revenue	9	**283 954**	28 795
Mining leases and ownership		**270 339**	3 315
Provincial administration receipts	10	**65 101**	56 389
TOTAL REVENUE		**290 775 620**	256 525 743
Less:			
South African Customs Union Agreement			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	11	**8 259 425**	8 204 820
NET REVENUE FOR THE YEAR		**282 516 195**	248 320 923

Statement of change in net assets

for the year ended 31 March

	Notes	R'000
ADMINISTERED ASSETS		
Balance at 31 March 2001		(682 054)
Net gains and losses not recognised in the statement of financial performance		208 163
Net revenue for the year		248 320 923
Adjustment to net assets		(60 895)
Transfer to the National Revenue Fund		(248 051 865)
Balance at 31 March 2002		(473 891)
Net gains and losses not recognised in the statement of financial performance		374 539
Net revenue for the year		282 516 195
Transfer to the National Revenue Fund		(282 141 656)
Balance at 31 March 2003		(99 352)

Cash flow statement

for the year ended 31 March

	Notes	2002/2003 R'000	2001/2002 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	12	**290 783 549**	256 459 099
Taxation		**286 467 700**	252 373 784
Non-taxation		**4 315 849**	4 085 315
Cash transferred		**(290 401 081)**	(256 256 685)
Payments in respect of Customs Union Agreements		**(8 259 425)**	(8 204 820)
Cash to National Revenue Fund		**(282 141 656)**	(248 051 865)
Net cash (transferred)/retained from operations		**382 468**	202 414
Cash and cash equivalents at beginning of period		**(494 820)**	(697 234)
Cash and cash equivalents at end of period	13	**(112 352)**	(494 820)

Notes to the annual financial statements

31 March 2003

1. Accounting policies

1.1 Objectives

The objective of SARS is the efficient and effective collection of revenue.

1.2 Basis of accounting

In terms of the Public Finance Management Act No.1 of 1999 (PFMA), SARS is required to comply with generally accepted accounting practice unless the Accounting Standards Board approves the application of generally recognised accounting practice.

In the absence of definitive norms and standards for complying with generally accepted accounting practice for a revenue administration, agreement was reached with National Treasury who acted at that time in the capacity of the Accounting Standards Board in terms of section 89(1)(a)(ii), read with section 93(3) of the PFMA, that SARS will progressively comply as the relevant standards are developed.

Standards of generally recognised accounting practice were promulgated in terms of Government Notice No. R.1095 on 30 October 2001. These standards apply in respect of the financial years ending 31 March 2001, 31 March 2002 and 31 March 2003.

In terms of this regulation, revenue is represented by gross collections banked net of refunds. Refunds are represented by cheques raised (issued) or the raising of electronic refunds. Uncashed refund cheques and monies received and banked on behalf of any national department or any provincial government, which have not been allocated, are reflected in the statement of financial position.

Stale cheques are written back to income while subsequent claims in respect thereof are treated as drawbacks from current revenue collections. Electronic refund and payment rejections are accounted for per bank statement date.

1.3 Revenue recognition

1.3.1 Definition of revenue

Revenue means all taxes, levies, duties, fees and other monies collected by SARS for the National Revenue Fund.

1.3.2 Recognition of revenue

Revenue is recognised on the cash basis when payments are received and banked. This recognition of revenue has been extended to include all monies collected by the South African Post Office Limited which has not yet been paid over to SARS.

South Africa is the administrator of the Southern African Customs Union Agreement. All collections in respect of the Common Customs Union are included in the statement of financial performance as revenue according to the nature of the collection (duties, excise, etc) while refunds made to member countries are disclosed separately.

1.4 Revenue not recognised – Tax evasion

SARS acknowledges that its fiduciary responsibilities to the Government are unavoidably affected by the incidence of tax evasion and other breaches of the taxation laws by individuals and entities who have a legal obligation to the Government. No assertion, either implicit or explicit, is made in the financial statements that all such transactions have been brought to account.

1.5 Cash and cash equivalents

Cash includes cash on hand and cash at bank. These items are used in the cash management function of the central Government on a day-to-day basis. SARS does not have any term loan or bank overdraft facilities. All balances at the major banks participating in the cash management function of central Government are cleared to central Government on a daily basis.

Notes to the annual financial statements

31 March 2003

	2002/2003 R'000	2001/2002 R'000
2. Cash and cash equivalents	**335 995**	2 699
Receiver of Revenue (cash on hand)	**335 272**	904
Main control account – Regional offices	**723**	1 795
3. Other assets	**13 002**	22 179
South African Post Office Limited (VAT)	**8 911**	7 286
South African Post Office Limited	**2 483**	2 190
Provincial Administration	**921**	7 950
Account receivable	**687**	10
Debtors' suspense	**–**	4 743

The provincial debtor of R921 349 relates to monies owing by the Eastern Cape Province as a result of an overpayment of provincial revenue during the 1999/2000 financial year. Of the original overpayment of R7 950 266, R7 028 916 has been recovered in the current financial year.

	2002/2003 R'000	2001/2002 R'000
4. Other liabilities	**2**	1 250
State departments	**2**	2
Provision for write-offs	**–**	1 248
5. Income tax	**164 565 931**	147 310 360
Pay as you earn	**90 386 522**	84 278 392
Persons, individuals and companies	**60 864 178**	49 678 641
Tax on retirement fund industry	**6 989 650**	6 190 605
Secondary tax on companies	**6 325 581**	7 162 722
6. Value added tax/Sales tax	**70 149 852**	61 056 609
Value added tax	**70 149 896**	61 055 682
Sales tax	**(44)**	927

Notes to the annual financial statements

31 March 2003

	2002/2003 R'000	2001/2002 R'000
7. Other taxes	**6 657 834**	6 395 831
Transfer duties	**3 429 046**	2 912 987
Stamp duty	**1 540 698**	1 736 110
Marketable securities tax	**1 205 176**	1 212 825
Estate duty	**432 726**	481 851
Master fees	**31 722**	31 101
Donations tax	**17 696**	20 608
Levy on financial services	**770**	349
8. Non-tax revenue	**586 732**	425 460
State miscellaneous revenue	**432 998**	306 689
State fines and forfeitures	**152 960**	117 180
State licences	**774**	1 591
State miscellaneous revenue: R263 364 518 of the R432 997 411 represent net revenue received by SARS which could not be allocated to specific revenue types.		
9. Customs miscellaneous revenue	**283 954**	28 795
Customs miscellaneous revenue	**283 656**	28 694
Revenue in respect of other departments	**298**	101
10. Provincial administration receipts	**65 101**	56 389
Provincial administration consolidated account	**65 101**	56 389

The provincial administration consolidated account represents the net revenue collected on behalf of the provincial administrations. According to section 12(3) of the Public Finance Management Act No. 1 of 1999, the National Treasury must transfer all taxes, levies, duties, fees and other monies collected by SARS to that province's Provincial Revenue Fund.

Notes to the annual financial statements

31 March 2003

	2002/2003 R'000	2001/2002 R'000
11. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	**20 759 938**	18 935 854
Namibia	**269 231**	268 083
Botswana	**175 556**	200 168
Lesotho	**33 930**	32 557
Swaziland	**31 435**	52 993
Subtotal	**510 152**	553 801
South Africa	**20 249 786**	18 382 053
Received from the Common Customs Pool	**20 759 938**	18 935 854
Namibia	**2 596 880**	2 641 158
Botswana	**2 574 789**	2 622 444
Swaziland	**1 617 786**	1 503 067
Lesotho	**1 469 970**	1 438 151
Subtotal	**8 259 425**	8 204 820
South Africa	**12 500 513**	10 731 034
12. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year	**282 516 195**	248 320 923
Adjusted for:		
Payments in terms of Customs Union Agreements	**8 259 425**	8 204 820
Adjustment to net assets	**–**	(60 895)
(Increase)/Decrease in other assets	**9 177**	(3 689)
Increase/(Decrease) in other liabilities	**(1 248)**	(2 060)
Total cash received	**290 783 549**	256 459 099
13. Cash and cash equivalents	**(112 352)**	(494 820)
Cash and cash equivalents	**335 995**	2 699
Bank	**(448 347)**	(497 519)

Notes to the annual financial statements

31 March 2003

14. Theft and losses

Section 12(2) of the Public Finance Management Act does not make provision for the administration of theft and losses in respect of administered revenue. Theft and losses can therefore not be recovered by administered revenue. Theft and losses are managed by own accounts. An amount of R10 046 670 (R13 368 053 – 2001/02) is in respect of theft and losses for administered revenue.

15. Sureties

(i) Lien – Sanlam shares

3 541 833 (3 896 999 – 2001/02) Sanlam shares with a market value of R21 534 345 (R28 954 703 – 2001/02) are held in respect of amounts owing by 5 186 (5 582 – 2001/02) taxpayers at 31 March 2003.

(ii) Lien – Old Mutual shares

2 586 000 (1 092 200 – 2001/02) Old Mutual shares with a market value of R24 799 740 (R17 813 782 – 2001/02) are held in respect of amounts owing by 3 336 (2 642 – 2001/02) taxpayers at 31 March 2003.

(iii)Guarantees

Guarantees issued by financial institutions in favour of SARS amounting to R2 690 402 435 are held as security for various duties payable.

16. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes to the amount of R1 670 615 413 (R694 654 696 – 2001/02) has been written off on or prior to 31 March 2003. Amounts still awaiting approval for write-off do not form part of actual write-offs.

17. Audit fees

Audit fees are included in the cost of auditing in Own Accounts.

18. Bank

Bank primarily comprises cheques issued but not yet presented for payment amounting to R357 758 431. The remaining balance comprises a net over-transfer to National Treasury of R96 328 719 with the remaining amount of R5 740 131 relating to net reconciling items.

Annexure

Operational receivables and payables at 31 March 2003

Taxes

Outstanding debt (receivables) as at 31 March 2003

2002/03	1 – 3 months	4 – 6 months	7 – 8 months	9 months	Interest	Total debt
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Income tax	2 044 419	946 228	564 370	11 982 361	7 250 807	22 788 185
Individuals	1 153 426	500 137	251 794	5 701 958	2 443 818	10 051 133
Companies	890 993	446 091	312 576	6 280 403	4 806 989	12 737 052
PAYE	3 097 642	988 826	492 665	7 528 029	–	12 107 162
VAT	561 431	960 372	746 806	18 821 111	–	21 089 720
Total	5 703 492	2 895 426	1 803 841	38 331 501	7 250 807	55 985 067

Outstanding credits (payables) as at 31 March 2003

2002/03	Total credits
	R'000
Income tax	5 999 019
PAYE	7 164 385
VAT	5 077 880
Subtotal	18 241 284
STC	1 571 612
Total	**19 812 896**

Duties

Outstanding debt (receivables) as at 31 March 2003

2002/03	Debt	Interest	Total debt
	R'000	**R'000**	**R'000**
Customs duty	730 303	191 653	921 956
VAT	388 452	91 366	479 818
Surcharge	6 190	4 323	12 513
Fuel levy	25 184	10 764	35 948
P2A – Excise duty	81 790	21 761	103 551
P2B – Ad valorem	106 037	29 254	135 291
Penalties	107 044		107 044
Forfeiture	396 517		396 517
Total	1 843 617	349 121	2 192 638

The annual financial statements set out on pages 94 to 108 were approved and signed on behalf of SARS's executive committee by:

P Gordhan
Commissioner for SARS

11 August 2003

Own Accounts

At Your Service

REPORT ON OWN ACCOUNTS

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE (SARS): OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2003

1. Audit assignment

The financial statements as set out on pages 94 to 108, for the year ended 31 March 2003, have been audited in terms of Section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with Sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and Section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Nature and scope

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. Audit opinion

In my opinion, the financial statements fairly present, in all material respects, the financial position of SARS Own Accounts at 31 March 2003 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

4. Emphasis of matter

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Weaknesses in internal control – Property, plant and equipment

As previously reported, SARS completed the first physical verification of fixed assets in February 2001 and prepared a fixed asset register (FAR), which agreed with the general ledger. It was furthermore reported that SARS planned to test the effectiveness of the asset management system by verifying the assets of at least the large offices. SARS completed a fixed asset verification in respect for the 2001/02 financial year during August 2002. However, the asset verification of the 2002/03 financial year had not been completed at the time of writing this report.

The location indicators were incomplete in the FAR and I was therefore unable to verify the existence of assets amounting to R3,6 million. The FAR was under the control of a reputable external firm and they had, in certain circumstances, full authority to change fixed asset details. SARS did not perform detailed reviews of the data captured on the FAR and as a result duplicate temporary asset numbers were found on the FAR which originated from the use of a spread sheet to update the FAR. This could therefore compromise the data integrity of the FAR.

4.2 Subsequent events – suspension of a senior official

A senior official was suspended on 30 July 2003, pending the outcome of an investigation.

5. Appreciation

The assistance rendered by the staff and management of SARS during the audit is sincerely appreciated.

Labuschagne

S Labuschagne
for Auditor-General

Pretoria
26 September 2003

Balance sheet

as at 31 March 2003

	Notes	2003 R'000	2002 R'000
ASSETS			
Non-current assets		**297 405**	206 818
Property, plant and equipment	8	**278 878**	179 530
Intangible assets	9	**18 527**	27 288
Current assets		**1 093 678**	728 121
Accounts receivable	10	**42 984**	89 701
Cash and cash equivalents	18	**1 050 694**	638 420
Total assets		**1 391 083**	934 939
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		**1 092 020**	672 392
Asset revaluation reserve		**48 302**	48 302
Capital reserve on establishment		**32 364**	32 364
Accumulated surplus		**1 011 354**	591 726
Current liabilities		**299 063**	262 549
Trade and other payables	11	**183 133**	135 671
Provisions	12	**115 930**	126 878
Total capital, reserves and liabilities		**1 391 083**	934 941

Income statement

for the year ended 31 March 2003

	Notes	2003 R'000	2002 R'000
Revenue		**3 298 112**	2 627 227
Grant received		**3 071 886**	2 511 562
Donations		**1 474**	3 531
Interest received		**120 427**	61 321
Other revenue		**104 325**	50 813
Expenses		**2 878 484**	2 332 625
Administrative expenditure		**589 041**	411 365
Depreciation	8	**99 275**	52 005
Charge for the year		**99 275**	52 044
(Over)/Underprovision – prior periods		**–**	(39)
Amortisation	9	**15 026**	18 103
Finance charges		**24**	44
Miscellaneous expenditure		**2 938**	12 596
Personnel expenditure		**1 658 413**	1 455 283
Professional and special services		**513 767**	383 229
Net surplus for the year		**419 628**	294 602

Statement of changes in capital and reserves

for the year ended 31 March 2003

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus/ (deficit) R'000	Total R'000
Balance at 1 April 2001	48 302	32 364	297 124	377 790
Net surplus for the year	–	–	294 602	294 602
Balance at 31 March 2002	48 302	32 364	591 726	672 392
Net surplus for the year	–	–	419 628	419 628
Balance at 31 March 2003	**48 302**	**32 364**	**1 011 354**	**1 092 020**

Cash flow statement

for the year ended 31 March 2003

	Notes	2003 R'000	2002 R'000
Cash flows from operating activities		**617 175**	291 962
Net surplus for the year		**419 628**	294 602
Adjustments for:			
Depreciation		**99 275**	52 005
Amortisation		**15 026**	18 103
Loss on sale of assets and scrapping of intangible assets		**15**	905
Interest received		**(120 427)**	(61 321)
Finance charges		**24**	44
Operating surplus/(deficit) before working capital changes		**413 541**	304 338
Working capital changes		**83 231**	(73 653)
(Increase)/Decrease in accounts receivable		**46 717**	(43 255)
Increase/(Decrease) in accounts payable		**36 514**	(30 398)
Cash generated from operations		**496 772**	230 685
Interest received		**120 427**	61 321
Finance charges		**(24)**	(44)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(205 695)**	(130 139)
Proceeds from sale of property, plant and equipment		**794**	743
Property, plant and equipment adjustment		**–**	(156)
Increase in cash and cash equivalents		**412 274**	162 410
Cash and cash equivalents at beginning of year		**638 420**	476 010
Cash and cash equivalents at end of year	18	**1 050 694**	638 420

Notes to the annual financial statements

for the year ended 31 March 2003

1. Background

SARS was established as an organ of State on 1 October 1997 in terms of section 2 of the South African Revenue Service Act (the Act), (Act No 34 of 1997). SARS's objective is the efficient and effective collection of revenue on behalf of the State. In the Act revenue is defined as: "income derived from taxes, duties, levies, fees, charges, additional tax and any other monies imposed in terms of legislation, including penalties and interest in connection with such monies". In terms of section 7(2) and (3) of Schedule 2 to the Act, SARS took ownership of all movable assets of the State used by it, immediately before the effective date, together with contractual rights, obligations and liabilities. Any surplus of assets over liabilities was treated as capital.

2. Statement of accounting policies

2.1 Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice. The principal accounting policies are set out below and are consistent with previous years.

2.2 Revenue recognition

SARS's chief source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenues. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for when they accrue.

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable.

2.3 Donations

Where donations are received in kind, the amounts are not brought to account as revenue, but the approximate value of benefits received are disclosed by way of note – refer to note 6.

2.4 Other revenue

Other revenue earned by SARS consists mainly of commissions earned in its function as an agent for collection of contributions to the Skills Development Levy as well as the Unemployment Insurance Fund.

2.5 Retirement benefit plans

Current contributions on behalf of employees to the Government Employees Pension Fund, which is a defined benefit plan, are charged to the income statement in the year to which they relate. No provision is made for post-retirement benefits as this obligation vests with the National Government.

The entitlement to these benefits is usually dependent on the employee remaining in service up to a minimum retirement age and the completion of a minimum service period.

Refer to note 16 for details regarding the actuarial valuation method used to determine the fund's financial health.

2.6 Property, plant and equipment

2.6.1 Property, plant and equipment was revalued on 1 April 2000. Subsequent additions to property, plant and equipment are capitalised at cost.

The assets were valued on the following basis:

2.6.1.1 Motor vehicles were valued at the trade value of each vehicle per the Auto Dealers' Guide for March 2000.

2.6.1.2 Furniture and fittings and office equipment were counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive data base maintained by the consultants responsible for the asset project, who are specialists in this field.

2.6.1.3 Computer equipment was counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive data base maintained by the consultants responsible for the asset project, who are specialists in this field.

Notes to the annual financial statements

for the year ended 31 March 2003

2.6.2 Depreciation is provided on all property, plant and equipment to write down the cost or valuation less estimated residual value by equal instalments over their economic lives as follows:

Cabling infrastructure	5 years
Computers (main frame)	5 years
Computers (personal and printers)	3 years
Furniture and fittings	6 years
Garden equipment	3 years
Kitchen equipment	6 years
Laboratory equipment	5 years
Leasehold improvements	Over the life of the asset or the lease period, whichever is the shorter
Office equipment	5 years
Prefabricated buildings	5 years
Security equipment	5 years
Software (main frame)	
Purchased	3 years
In-house developed	3 years
Software (personal computers)	3 years
Vehicles	5 years

2.6.3 Fixed property consists of land and improvements thereto for occupation by employees.

Fixed property is recognised at its initial cost and revalued on an annual basis by recognised professional valuers to net realisable open market value for existing use. The carrying value of the properties is adjusted to the revalued amounts and the resultant surplus credited to the asset revaluation reserve. Impairment losses will be treated as a revaluation decrease to the extent that the impairment loss does not exceed the revaluation surplus for that same asset.

Impairment losses over and above the revaluation surplus will be expensed to the income statement.

2.7 Intangible assets

Expenditure on in-house developed software is charged to income in the year in which it is incurred, except where a clearly defined project is undertaken and it meets the criteria set out in AC 129, Intangible Assets. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of operation, which is on average three years. Costs directly associated with the project are capitalised.

2.8 Financial assets and liabilities

Financial assets

SARS principal financial assets are cash and cash equivalents, which comprise bank balances and cash on hand, and receivables.

Receivables are stated at their nominal value as reduced by appropriate provisions for estimated irrecoverable amounts.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include trade and other payables.

Trade and other payables are stated at their nominal value.

Notes to the annual financial statements

for the year ended 31 March 2003

	2003 R'000	2002 R'000
3. Professional and special services		
Included in the above are audit fees for services provided by the Auditor-General	**24 020**	15 947
4. Irregular expenditure		
The following amounts, included in the annual financial statements, constitute irregular expenditure:		
a) Purchase of television set and video machine	**–**	3
Total	**–**	3

The disclosure of the above is required in terms of section 55 (2)b of the Public Finance Management Act.

5. Executive members' remuneration

Designation	Salary	Bonus	Allowances	Contributions Medical and Pension	**2003 R'000 Total**
Commissioner for SARS	960	40	151	11	1 162
Chief Information Officer (CIO) – 5 months	481	–	50	–	531
GM: Law Admin	449	69	122	77	717
GM: Finance	547	84	122	81	834
GM: Assessments	376	54	116	66	612
GM: Human Resources	479	24	103	–	606
GM: Strategy and Planning	557	31	113	–	701
GM: Taxpayer Services	618	4	106	–	728
GM: Enforcement	444	67	122	78	711
GM: Internal Audit	390	47	90	66	593
GM: Customs	431	62	122	65	680
Total	5 732	482	1 217	444	7 875

As this is the first year of required disclosure no comparatives were included.

Notes to the annual financial statements

for the year ended 31 March 2003

	2003 R'000	2002 R'000
6. Donations		
SARS received the following donated benefits in kind:		
a) **USAID – United States Agency for International Development**	**–**	3 073
Technical assistance and training funded received through:		
– US Treasury and Internal Revenue personnel		
– Nathan Associates		
– Educational Opportunities Council (EOC)		
b) **Sida – Swedish International Development Agency**	**5 424**	5 300
Short-term advisors, technical assistance and training		
Study visits		
Residential and non-residential training		
c) **AusAID – Australian Agency for International Development**	**–**	1 302
Short-term advisors providing technical assistance in the following areas:		
– Tax anti-avoidance legislation		
– Establishing a procurement policy framework		
– Implementation of the procurement policy framework		
d) **DFID – UK Department for International Development**	**15 721**	13 172
Technical assistance and training on various Siyakha-Customs initiatives		
Total	**21 145**	22 847

The above amounts were paid directly to the suppliers of the services. No monies were directly received by SARS. Amounts have been converted at exchange rates ruling at the time.

7. Tax status

SARS is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962.

SARS is a registered VAT vendor and pays output VAT on grants received, less input VAT on applicable expenditure.

Notes to the annual financial statements

for the year ended 31 March 2003

8. Property, plant and equipment

	Computer equipment R'000	Computer software R'000	Fixed property R'000	Furniture fittings and office equipment R'000	Lease-hold improve-ments R'000	Security equipment R'000	Motor vehicles R'000	**Total R'000**
For the year ended 31 March 2003								
At cost or valuation								
Opening balance – 31 March 2002	**335 897**	**30 654**	**–**	**105 003**	**–**	**7 796**	**51 167**	**530 517**
Adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Additions	**104 540**	**13 917**	**365**	**34 076**	**27 915**	**6 114**	**12 503**	**199 430**
Disposals	**(2 986)**	**–**	**–**	**(2 303)**	**–**	**–**	**(1 674)**	**(6 963)**
Closing balance – 31 March 2003	**437 451**	**44 571**	**365**	**136 776**	**27 915**	**13 910**	**61 996**	**722 984**
Accumulated depreciation								
Opening balance – 31 March 2002	**261 460**	**3 123**	**–**	**53 346**	**–**	**804**	**32 254**	**350 987**
Adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Charge for the year	**52 716**	**12 230**	**–**	**20 874**	**–**	**2 111**	**11 344**	**99 275**
Disposals	**(2 970)**	**–**	**–**	**(1 705)**	**–**	**–**	**(1 481)**	**(6 156)**
Closing balance – 31 March 2003	**311 206**	**15 353**	**–**	**72 515**	**–**	**2 915**	**42 117**	**444 106**
Carrying amount – 31 March 2003	**126 245**	**29 218**	**365**	**64 261**	**27 915**	**10 995**	**19 879**	**278 878**
For the year ended 31 March 2002								
At cost or valuation								
Opening balance – 31 March 2001	286 769	4 515	–	77 710	–	1 356	45 072	415 422
Revaluation	–	–	–	–	–	–	–	–
Adjustment	(956)	(609)	–	2 450	–	3	(903)	(15)
Additions	50 084	26 748	–	24 843	–	6 437	10 623	118 735
Disposals	–	–	–		–		(3 625)	(3 625)
Closing balance – 31 March 2002	335 897	30 654	–	105 003	–	7 796	51 167	530 517
Accumulated depreciation								
Opening balance – 31 March 2001	237 148	251	–	38 516	–	191	25 949	302 055
Revaluation	–	–	–	–	–	–	–	–
Adjustment	(171)	–	–	–	–	–	–	(171)
Charge for the year	24 483	2 872	–	14 830	–	613	9 207	52 005
Disposals	–	–	–	–	–	–	(2 902)	(2 902)
Closing balance – 31 March 2002	261 460	3 123	–	53 346	–	804	32 254	350 987
Carrying amount – 31 March 2002	74 437	27 531	–	51 657	–	6 992	18 913	179 530

Furniture and fittings and office equipment also include garden equipment, kitchen equipment, laboratory equipment and prefabricated buildings.

The adjustments made to the cost price were to reallocate assets between categories which were incorrectly disclosed at 31 March 2001.

The adjustment made to the accumulated depreciation was to rectify a misallocation at 31 March 2001.

Notes to the annual financial statements

for the year ended 31 March 2003

	Computer software R'000	Total R'000
9. Intangible assets		
For the year ended 31 March 2003		
At cost or valuation		
Opening balance – 31 March 2002	**66 962**	**66 962**
Additions	**6 265**	**6 265**
Scrapping		**–**
Closing balance – 31 March 2003	**73 227**	**73 227**
Accumulated amortisation		
Opening balance – 31 March 2002	**39 674**	**39 674**
Charge for the year	**15 026**	**15 026**
Closing balance – 31 March 2003	**54 700**	**54 700**
Carrying amount – 31 March 2003	**18 527**	**18 527**
For the year ended 31 March 2002		
At cost or valuation		
Costs expensed previous years, now capitalised	56 483	56 483
Additions	11 404	11 404
Scrapping	(925)	(925)
Closing balance – 31 March 2002	66 962	66 962
Accumulated amortisation		
Accumulated amortisation charge for previous years	21 571	21 571
Charge for the year	18 103	18 103
Closing balance – 31 March 2002	39 674	39 674
Carrying amount – 31 March 2002	**27 288**	**27 288**

Notes to the annual financial statements

for the year ended 31 March 2003

	2003 R'000	2002 R'000
10. Accounts receivable		
Staff accounts receivable	**8 987**	7 419
Less: Provision for doubtful debts	**1 177**	2 206
	7 810	5 213
Government departments	**28 292**	24 663
Refundable deposits	**610**	318
Other receivables	**6 272**	10 212
Prepayments	**–**	49 295
Total	**42 984**	89 701
11. Trade and other payables		
Trade accounts payable	**15 644**	12 868
Accruals for salary-related expenses	**24**	3 695
Other accruals	**138 478**	82 238
Other payables	**282**	133
Retentions	**3 308**	10 776
Project advances	**7 450**	24 064
VAT payable	**17 947**	1 897
Total	**183 133**	**135 671**

12. Provisions

	Performance and service bonuses	Leave pay	Hay backpay	Other	**Total**
At 31 March 2002	54 461	22 499	49 918	–	126 878
Additional provisions	115 643	20 120	15 900	464	152 127
Utilisation of provision	(110 438)	(10 114)	(42 523)	–	(163 075)
At 31 March 2003	**59 666**	**32 505**	**23 295**	**464**	**115 930**

Performance, service bonuses and leave pay provisions represent estimated liabilities arising as result of services rendered by employees.

Hay backpay provision represents the entity's estimated obligation towards the settlement of amounts due in terms of potential claims relative to its Hay grading scheme.

Notes to the annual financial statements

for the year ended 31 March 2003

	2003 R'000	2002 R'000
13. Contingent liabilities		
Guarantees issued to various financial institutions in respect of housing loans granted to employees	**16 226**	20 076
Accumulated leave prior to 31 December 1998	**89 877**	84 417
	106 103	104 493

The contingent amount for accumulated leave pertains to the period up to 31 December 1998. Up to this point there was no limitation on the number of leave days that could be accumulated.
The value of such accumulated leave is only payable in the event of employees retiring or leaving SARS's employ due to ill health or upon their death in service.

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provision for such accumulated leave has been made and disclosed as part of note 12.

	2003 R'000	2002 R'000
14. Capital commitments		
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	**54 217**	87 890
15. Operating lease commitments		
At 31 March the future minimum property operating lease commitments are:		
Due as follows:		
Within one year	**121 672**	107 968
Between two and five years	**347 988**	391 051
In more than five years	**79 626**	73 778
	549 286	**572 797**
At 31 March the future minimum equipment operating lease commitments are:		
Due as follows:		
Within one year	**6 245**	2 236
Between two and five years	**5 946**	2 698
	12 191	**4 934**

Notes to the annual financial statements

for the year ended 31 March 2003

16. Retirement benefit plans

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund. All eligible employees are members of the defined benefit plan.

Scheme assets primarily consist of listed shares, property and fixed income securities.
The Fund is governed by the Government Employees Pension Law.

SARS has no responsibility regarding any funding of a shortfall of the pension fund. The obligation to fund any shortfall resides with National Government.

According to rule, 4.9 of the fund, the entire fund is subject to an actuarial valuation once every three years. NBC Employee Benefits (Pty) Ltd were commissioned by the Minister of Finance, in his capacity as a member of the interim Board of Trustees, to perform an actuarial valuation of the fund as at 31 March 2001.

The previous valuation was performed as at 31 March 2000.

It is the opinion of the actuaries that the fund is in a sound financial position as the funding level is above 95% as at the valuation date.

No current audited accounts for the pension fund were available at the time the SARS Own Accounts were completed. The notes used for the valuation, as well as the comparatives, were therefore based on the most recent valuations done.

Principal assumptions used:	**31 March 2001**	**31 March 2000**
The accrual of future benefits be funded at:	100%	100%
The deficit in respect of past service benefits be redeemed as soon as possible to achieve a funding level of:	100%	100%
A long-term inflation rate:	10%	10%
A long-term salary inflation rate:	11%	11%
Pension increases are provided for:	7,5%	7,5%
The interest rate to discount the assets and liabilities:	14%	14%
Growth in dividends:	11%	11%

Fair value of assets:

	Rm	**Rm**
Fair value of investments	223 078	199 412
Fixed assets and net current assets	1 661	2 369
Provision for tax	(7 889)	(6 852)
	216 850	194 929

Notes to the annual financial statements

for the year ended 31 March 2003

	31 March 2001 Rm	31 March 2000 Rm
16. Retirement benefit plans *(continued)*		
Fair value of liabilities:		
Contributing members	138 048	124 858
Pensioners	77 516	73 005
Dormant members	–	3
Data and contingency reserves	5 390	4 947
	220 954	202 813
Financial position		
Actuarial value of assets	216 850	194 929
Actuarial value of liabilities	220 954	202 813
Deficit	(4 104)	(7 884)
Past-service costs	220 954	202 813
Contributing members	138 048	127 980
Retirement	85 947	79 074
Ill-health	28 942	26 761
Death	9 483	8 794
Resignation	13 676	13 351
Dormant members	5 390	3
Pensioners	77 516	74 830
Retirees	64 732	65 754
Spouses	12 784	9 076

The investment return achieved on actuarial value of the assets was 14,6% compared to 15% for the previous period.

The financial health of the fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

	2003 R'000	2002 R'000
Pension fund contributions (employer contribution included in personnel expenditure)	**182 974**	166 820

Notes to the annual financial statements

for the year ended 31 March 2003

	2003 R'000	2002 R'000
17. Post-retirement medical benefits		
For the purpose of post-retirement benefits, SARS falls under the Public Service Act. According to the Act, the State will continue to contribute to medical aid payments of employees after retirement if certain criteria are met. SARS as an autonomous entity, has no obligation to pay post retirement medical benefits to its retired employees or contribute to their continuance of membership of any medical aid.		
18. Cash and cash equivalents		
Bank balances	**343 233**	638 994
Short-term investments	**707 130**	–
Bank overdrafts	**(1)**	(848)
Cash on hand	**332**	274
	1 050 694	638 420