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## ABBREVIATIONS AND ACRONYMS

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<tbody>
<tr>
<td>ACCA</td>
<td>Association of Certified Chartered Accountants</td>
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<td>AG</td>
<td>Auditor-General</td>
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<tr>
<td>DTA</td>
<td>Double Taxation Agreement</td>
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<td>DTI</td>
<td>Department of Trade and Industry</td>
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<td>EU</td>
<td>European Union</td>
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<td>EXCO</td>
<td>Executive Committee</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Practice</td>
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<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>IDASA</td>
<td>Institute for a Democratic Alternative South Africa</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>MBA</td>
<td>Masters of Business Administration</td>
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<td>MST</td>
<td>Marketable Securities Tax</td>
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<td>MTA</td>
<td>Master Taxation Authority</td>
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<td>NDA</td>
<td>National Department of Agriculture</td>
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<td>NEHAWU</td>
<td>National Education Health and Allied Workers Union</td>
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<td>NITS</td>
<td>New Income Tax System</td>
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<td>PAYE</td>
<td>Pay-as-you-earn</td>
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<td>PBO</td>
<td>Public Benefit Organisation</td>
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<td>PFMA</td>
<td>Public Finance Management Act</td>
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<td>PSA</td>
<td>Public Service Association</td>
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<td>RAU</td>
<td>Rand Afrikaans University</td>
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<td>RFT</td>
<td>Retirement Fund Tax</td>
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<td>SA</td>
<td>South Africa</td>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<td>SARS</td>
<td>South African Revenue Service</td>
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<td>SETA</td>
<td>Sectoral Education and Training Authority</td>
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<td>STC</td>
<td>Secondary Tax on Companies</td>
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<td>TSD</td>
<td>Technology Services Division</td>
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<td>US</td>
<td>United States</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>VAT</td>
<td>Value-Added Tax</td>
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<td>Y2K</td>
<td>Year 2000</td>
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1. ORGANISATIONAL STRUCTURE

MINISTRY OF FINANCE
Minister T Manuel

COMMISSIONER
P. Gordhan

SARS Advisory Board

GM: INTERNAL AUDIT
E Mushanganyisi

GM: SIYAKHA
B Batungt

GM: OPERATIONS
T Marx

GM: CUSTOMS
V Shabalala

GM: COMPLIANCE
I Pillay

GM: LAW ADMIN
K Louw

GM: FINANCE
P Mangrey

GM: HUMAN RESOURCES
J Parfitt

GM: TECHNOLOGY SERVICES
G Keyter

The year under review has been a watershed period for the fundamental transformation of SARS. It has been both a challenging and rewarding year for SARS in many different ways and was a year in which a triple mandate developed, namely maintaining the existing organisation, implementing incremental changes and radically reviewing SARS’ capacity and potential.

THE LEGACY

The year under review was a frank reminder of the legacy that SARS inherited from the past, especially in the following areas:

• **Systems and Technology** - The organisation had limited automation, non-integrated and old systems coupled with outdated and/or unreliable hardware and software

• **Processes** - SARS was a functional driven organisation and the processes were not integrated

• **Human Resources** - The organisation had very limited skills in the fields of information technology, management and accounting. Instead, there was a steep organisational structure, which resulted in low staff morale and internal fraud. In terms of race and gender, there was a major imbalance

• **Financial** - Although SARS is required to comply with GAAP in terms of the SARS Act, there are no definitive norms and standards for compiling the annual financial statements. As a result of poor systems and skills levels resulted in weak financial controls.

• **Communication and Service** - Communication, both internal and external, and taxpayer service were extremely poor. There was also a lack of control over key resources such as border posts

• **Tax Systems** - Following the demise of the homelands, SARS inherited eleven tax administrations all with different rate structures. High corporate tax rates, fiscal drag, excessive exemptions, low compliance levels and high fraud had narrowed the tax base

• **Customs** - A lack of proper systems and manual processes resulted in unreliable and inadequate data, prohibiting effective and efficient customs administration.

PERFORMANCE

In the year under review significant changes, although mainly incremental, were achieved. This report reflects some of the changes in operational processes, human resources systems, technology enhancements, and the legal framework within which both the customs and tax components work.

Last year was also a year in which new managerial blood was introduced at national, regional and branch-level. These men and women have begun to make a significant contribution.
Despite the challenges that still remain, SARS staff has performed extremely well in recent years. Over the last four years, SARS has collected more than R20 billion in revenue over and above initial forecasts, and has achieved strong nominal revenue growth averaging 13% per year. Revenue collection continued to exceed expectation in the year 1999/2000, with SARS collecting a record R200 billion for the South African citizens. The benefits of this cannot be underestimated: it reduced the budget deficit, it will indirectly lead to the lowering of interest rates, government will borrow less money and it will positively boost investor confidence.

**TAX MORALITY**

One of the obligations that every citizen has to the state in a democratic order is to pay tax and to contribute to a socially acceptable level of tax and customs compliance.

The tax system stands at the centre of our democracy. It directly affects the everyday lives of virtually every citizen and, indirectly, has a profound influence on the economy - South Africans need more social services, and Government needs more money to deliver these services. We have to grow our economy and increase our tax base.

The customs regime in South Africa has a similar pivotal role: protecting the South African economy and facilitating the growth of South African business.

South Africa is sadly plagued by a low tax morality, which has led to an increase in tax fraud and criminality, which translated in an estimated R20 - R30 billion tax gap for the country. Tax compliance and its alter ego, tax criminality, remain a major concern. For the benefit of the country as a whole, SARS is committed to combating any form of tax fraud. Tax fraud is a deliberate evasion of one’s duties as a citizen, while at the same time taking advantage of the benefits of citizenship. Through such action, an added burden is cast on those members of the community who bear their tax obligations with integrity. There is a new compliance climate that is beginning to develop in South Africa, but more has to be done to turn this around. This weakness arises because there are:

- business persons, small and large, who demand that government must deliver on its undertakings but effectively sabotage good governance and foster the very lawlessness they decry, by not paying their taxes;
- professionals in tax and customs matters who build their fortunes by devising one scheme or another to reduce flows to the fiscus;
- syndicates whose primary aim is conspiring to steal millions of Rand from the fiscus through VAT and customs fraud; and
- ordinary citizens who either do not realise, or who do not care that they are participating in tax evasion by not registering for tax at all.

**KEY PERFORMANCE INDICATORS**

The key performance indicators for SARS in the coming year are:

a) improved revenue collections and our ability to reduce the tax gap as well as to close loopholes that currently exist;
b) tighter customs control and a new assertiveness in order for the industry and the local economy to have full confidence in the SA Customs;

c) collaboration with the private sector;

d) changes in Human Resources;

e) improvements in technology;

f) business process changes;

g) new management talent;

h) partnership with Trade Unions; and

i) better control over expenditure.

FINANCIAL CONTROLS

There was a disclaimer of audit opinion by the Auditor-General for 1998/1999 financial year and unfortunately this is the case again for the 1999/2000 financial year.

SARS was expected to comply with GAAP from the date of autonomy. However, a realistic period should have been provided for.

The SARS Act which created an autonomous SARS in October 1997, prescribed that the organisation would comply with GAAP.

However, for both Own Accounts and Administered Revenue:

- no transition process and period was defined for the implementation of GAAP;
- on the other hand, the PFMA, which came into effect on 1 April 2000 allows a period of three years for departments and entities to fully comply with GAAP;
- the legacy of inadequate operational processes and controls, poor skills levels and the inappropriate technology and accounting systems had to be recognised.

These factors contributed to the disclaimer of audit opinion by the AG.

The current SARS management is cognisant of its responsibilities and has accordingly put the following measures in place of assertively addressing the concerns raised by the AG.

In respect of Own Accounts:

- SARS has engaged consultants to assist with resolution of the key historical problems.
- The annual financial statements with the supporting reconciliations at 31 March 2000 were finalised in compliance with GAAP.
- Policies and procedures will soon be implemented.
- Regular reconciliations are now being prepared.
- The fixed assets register management project with a milestone of 28 February 2001 has been initiated.
- The registry and filing systems are now more robust.

With regard to Administered Revenue:

- A project has been initiated to address the reconciliation of the net cash received and the implementation of policies and procedures.
- Phase one of an integrated financial management system will be implemented in the first 6 months of the 2001/2002 financial year.
- The implications and considerations of the integration thereof to the individual core tax systems will then be evaluated.
In recent months extensive discussions took place amongst National Treasury, Auditor General and SARS. These discussions focussed on:

- The application of Generally Accepted Accounting Practice (GAAP) whilst acknowledging that there are no definitive applicable GAAP rules either locally or internationally.
- Interpretation and application of the Public Finance Management Act (PFMA) Act No 1 of 1999 for SARS Administered Revenue.
- Anticipated pro-active implementation at 31 March 2000 of the PFMA.
- Recognition of the transitional period provided for implementation of the PFMA.
- The nature and content of Generally Recognised Accounting Practice (GRAP) and Cash Accounting as provided for in the PFMA together with the applicable gazetted Treasury Regulations.

An opinion was obtained from the Chief State Law Adviser who was of the opinion that SARS would have to comply with GAAP.

The management of SARS is totally and irrevocably committed to minimising all deficiencies in the SARS system. The plans are in place to achieve this. However the complexity of SARS’s mandate, the need to ensure both transformation and uninterrupted revenue collection, and the availability of resources will all influence our ability to implement our plans.

TRANSFORMATION

To take SARS to the next level of improved revenue collection and customs control, we have initiated a transformation program, Siyakha, which will diagnose and re-engineer all business processes over the next three years.

Its successful implementation should raise the status of SARS as a leading customs and revenue administrator in the global arena. It is however important to note that the magnitude of the problems SARS inherited and the program put in place to effect the change required, can only be affected over a three year period. Many of the problems that SARS have today will still be with us next year. In particular those problems highlighted by the Auditor-General are systemic problems that can only be addressed over a longer time period.

I would like to thank senior management in SARS for their continuous support and creative input on South Africa’s tax reform programmes. I also thank the staff for their commitment to improving the service to the taxpaying public and importer and exporter.

The support and encouragement of the Minister Trevor Manuel and Deputy Minister Sipho Mpahlwa was greatly appreciated.

Lastly, I would like to thank the people whom we serve for their cooperation and support.

PRAVIN GORDHAN
19 December 2000
3. SARS EXECUTIVE COMMITTEE

Standing from left to right: Ivan Pillay: General Manager - Compliance; Gerhard Keyter: General Manager - Technology Service; Prakash Mangrey: General Manager - Finance; Andrew Fisher: General Manager - Revenue Analysis; Edward Mushanganyisi: General Manager - Internal Audit

Sitting from left to right - Bhabhalazi Bulunga: General Manager - Siyakha; Thinus Marx: General Manager - Revenue Operations; Kosie Louw: General Manager - Law Administration; Judy Parfitt: General Manager - Human Resources; Pravin Gordhan: Commissioner for SARS; Vuso Shabalala: General Manager - Customs Operations
4. SARS ADVISORY BOARD

The Honourable Mr Justice M M Corbett
Chairperson of the SARS Advisory Board.
Former Chief Justice of the RSA.

Mr Sizwe Errol Nxasana
Deputy Chairperson of the SARS Advisory Board and Chair of the Audit Committee. Currently CEO of Telkom SA.

Mr Pravin Gordhan
Commissioner for the SARS Member of the SARS Advisory Board and Transformation Committee.

Mr Eric Mafuna
Member of the SARS Advisory Board and chairman of the Transformation Committee. Managing Director and Senior Consultant - Africa Now (Pty) Ltd.

Professor Anthony Asher
Member of the SARS Advisory Board and serves on the Audit Committee. Professor and Director of Actuarial Studies: University of the Witwatersrand.

Ms Dolly Doreen Mokgatle
Member of the SARS Advisory Board and the Transformation Committee. Executive Director: Transmission Eskom.

Professor Dilip Garach
Member of the SARS Advisory Board and serves on the Transformation Committee. Chartered accountant and tax specialist.

Ms Truida Prekel
Member of the SARS Advisory Board and the Transformation Committee. Management Consultant - Truida Prekel Consultants.

Mr William Selwyn MacFarlane
Member of the SARS Advisory Board and the Audit Committee. Former Group Deputy Chairman - South African Breweries.
5. CHAIRMAN’S REPORT

It gives me much pleasure to contribute to this, the SARS Annual Report 2000, on behalf of the SARS Advisory Board. The year under review has been one of momentous change and significant achievement for SARS.

Firstly, warmest congratulations to SARS on its outstanding achievement in collecting revenue well in excess of its target, which continues the fine record established in the previous four years. The growth in revenue, has once again had a highly beneficial effect on the national economy, and confirms the importance of the plans SARS has to improve its performance even further in the coming years.

The year 2000 saw a change in the leadership structure at SARS with the resignation of Trevor van Heerden and the appointment of Pravin Gordhan as the Commissioner. Trevor van Heerden had a long and distinguished career at SARS and was instrumental in the establishment of SARS as an autonomous body. I would like to congratulate him on his fine achievements and to thank him for his cooperation, and wish him well in his new endeavours. The Board was delighted to welcome Pravin Gordhan as the new Commissioner. His enthusiasm and innovative approach will stand him in good stead for the challenging times ahead for SARS and for the realisation of the transformation that he commenced as Deputy Commissioner. He has the fullest support from the Board and I wish him a long and fulfilling career at SARS.

Over the past year, SARS has had to ensure that there was "business as usual" whilst simultaneously initiating extensive and fundamental transformation processes. The environment in which it operates continually presents new challenges to which it must rise. SARS plays a pivotal role in many of the new processes currently taking place, such as fundamental changes in the Government’s tax reform process and participation in regional initiatives in both revenue and customs activities. By improving collection processes and through joint efforts with other government agencies, SARS has had noteworthy successes in the attempt to improve tax morality and compliance in the country. At the same time, SARS has undertaken extensive internal changes to its support services to ensure that staff will be well equipped for the new organisation.
The problems with the financial systems as reported by the Auditor-General have been vigorously tackled. Many of these are unfortunately systemic, and, whilst significant improvements have been made this financial year, a great deal of hard work is still required to reach the standards envisaged. SARS has had to rectify systems and skills that were unsuited to the new standards demanded of it, such as conformity with Generally Accepted Accounting Practice. Problems of this nature are not remedied overnight. Whilst acknowledging that it still has some way to go to meet the required standards, credit should be given for the enormous improvements made this year, and I thank the Commissioner and his staff for their tireless commitment to resolving these difficulties.

A continuing concern for the Board is the issue of ensuring adequate financial resources for SARS to fulfil its transformation plans. A lack of resources is placing severe constraints on these plans and negatively affecting the momentum of the process. The importance of creating and sustaining improved revenue collections for the national economy cannot be overemphasised. We, as a Board, believe this can only be achieved if SARS is adequately resourced and we are therefore seeking innovative ways of providing such funding.

Finally, I wish to thank the Commissioner and staff of SARS for their unstinting efforts in the creation of a new SARS, as well as my colleagues on the Board for their valued contribution to this end.

M. M. CORBETT
Chairperson
SARS Advisory Board
6. THE TRANSFORMATION PROGRAMME (SIYAKHA)

INTRODUCTION

The SARS is the product of the amalgamation of the former Inland Revenue and Customs and Excise Departments and it employs approximately 11 000 people in 88 offices countrywide.

Since SARS became administratively autonomous in October 1997, the organisation has embraced change at many levels. Operational processes, management styles, information technology systems, and human resources practices have all undergone change.

Improved efficiency has been especially noticeable in revenue collection performance. For the period 1995/96 – 1999/2000, SARS has collected R16 billion above the targets set by Department of Finance as well as an additional R8.8 billion for efficiencies already built into the target, which then adds up to a total of R25.199 billion additional revenue. Nominal revenue growth has averaged 13% per year. SARS’ positive impact on the economy has been amply demonstrated in recent years. This has helped contribute to:

- lower national budget deficit;
- reduced corporate and individual income tax rates;
- increased social service provision by government; and
- reduced government borrowing costs.

Despite these achievements, the SARS management firmly believes that there is a burning need for change in the organisation as SARS still performs significantly below its full potential.

Achievements to date have been the product of incremental rather than fundamental change. Key inefficiencies must still be addressed. This view is supported by experts from customs and revenue administrations in the United Kingdom, the United States and Sweden, who have highlighted the need for further transformation, as have other international benchmarking exercises conducted by SARS.

Without further far-reaching change, SARS will fail to close the tax gap, estimated at around R20 billion. Its ability to enforce international trade agreements will also be compromised.
Given this background, SARS’ corporate plan for this financial year, as well as the next three years, will focus primarily on ways to substantially improve the efficiency of SARS’ revenue collections and customs control. The central challenge for SARS is therefore to undergo transformation while at the same time attaining its targeted revenue of R212 billion for the year 2000/2001. SARS is acutely aware that it cannot falter. Any mistake will reverberate throughout government and will impact on all of South Africa.

SARS has, therefore, embarked on a mission to create a new Business Architecture aimed at achieving the above-mentioned goals. The transformation programme, known as Siyakha ("we are building"), involves the fundamental re-organisation of the business and its processes. The mission is divided into two phases: a high level diagnostic phase and a detailed implementation phase.

The diagnostic phase includes revenue, customs, and excise-specific, as well as common initiatives. To establish the impact on the external and internal environment, more specifically the taxpayer base, the human resources, the legislative requirements, the organisational infrastructure and the technological platform required to support this massive undertaking are being deployed. The consequences of the proposed initiatives have to be taken into consideration.

The implementation phase of the initiatives is expected to last at least 24 months. There are many opportunities for SARS to achieve successes, as well as create organisational momentum and support for the transformation process, as certain components of the initiatives can be implemented between three and nine months.

The primary objective of this three-year programme is to substantially improve the efficiency of SARS revenue collection and customs control by:

- developing a high-level taxpayer and business strategy;
- redesigning revenue and customs business policies and processes;
- changing organisational infrastructure in line with redesigned processes;
- eliminating existing inefficiencies;
- dramatically improving taxpayer service and relations;
- changing the technology systems and infrastructure; and
- promoting integrity and professionalism among staff.

This project will significantly impact on SARS’ budget and other areas of operation.
CHALLENGES AND OPPORTUNITIES

Several factors will determine and impact upon the implementation of the transformation program, Siyakha. The following internal as well as external factors will impact on, and influence the outcome of SARS transformation program.

Internal challenges

These internal challenges were highlighted during the diagnostic phase of Siyakha.

The organisational structure was inefficient

The structure was bureaucratic, with too many layers of management and narrow spans of control. The predominant mode of organisation was determined by function rather than process, and was characterised by a lack of uniformity across branch offices. Other shortcomings included inadequate attention to taxpayer service, and a lack of integration of customs and revenue operations, resulting in duplication of activities.

Core business processes are inefficient

Process duplication exists across tax types (income tax, value-added-tax, PAYE). All processes (registration, assessment, collections, audit) are performed at each of the 42 revenue offices.

Human resources practices are weak in some areas

Significant progress has been made on this front, but much work remains. Retention of staff, especially in key functions such as audit, is a cause for concern. Allocation of employees is sub-optimal. A performance management system is in the process of implementation. Training is not adequately addressing the key skill shortages, and a greater focus on on-the-job training is required.

External challenges

Electronic Commerce

Electronic commerce technologies will open up new ways through which SARS can undertake its business of administering tax law and collecting tax revenue. Through e-commerce, taxes can be administered and collected electronically, enabling us to interact with the wider community in a more efficient and accessible manner. It will primarily create new taxpayer service opportunities, but it will also change the character of the tax administration, while at the same time creating new compliance challenges.

Taxpayer service opportunities

- Improving service standards;
- Communications facilities and access to information can be enhanced to assist taxpayers and to improve response times (for example, e-mail);
Minimising business compliance costs;
Tax registration and filing requirements could be simplified and norms promoted for the acceptance of electronic material;
Enhancing voluntary compliance;
Electronic assessment and collection of tax could be encouraged; and
Easier, quicker and more secure ways of paying taxes and obtaining tax refunds could be facilitated.

Tax administration and compliance issues
Electronic commerce has the potential to amplify significantly some existing areas of risk to tax compliance. The challenge facing revenue authorities is to adapt the existing regulatory framework, as they may risk facing a significant decrease in tax revenue as more trade of intangibles takes place over the internet. These risks emerge from:
- taxpayers using the internet to conceal their identity, their location and/or particular transactions;
- encryption of documents and financial records or the holding of records in other jurisdictions to try and prevent the tax administrations gaining access to them; and
- any electronic record keeping systems which allow transactions to take place without leaving an audit trail or where the trail may be easy to alter or destroy.

Criminal Elements
Organised criminal elements (including white-collar financial crimes in legal industries and a broad base of individuals) continuously devise schemes to evade tax and therefore widen the tax gap. The impact of these schemes can be huge on revenue collections. The danger lies in consultants, individuals and firms who overstate personal or business expenses, falsify deductions, claim unallowable credits or excessive exemptions on returns. Overstatement of expenses on tax returns could result in fraudulent refunds.

AIDS
The Aids epidemic affects the economically active section of the population (ages 18-49). The epidemic will impact negatively on the skilled labour force, consumption, savings, and economic growth. Direct and indirect costs to firms may rise.

Consequently, tax revenues may decline in the following areas:
- Income tax
  - PAYE may decline as more people withdraw from work due to Aids;
  - Increased medical costs and reduced savings could decrease a taxpayer's taxable income and therefore reduce revenue collections; and
• Reduced household consumption, reduction in labour productivity and increased direct and indirect costs to firms will reduce companies' profits.

- VAT
• A definite slowdown in consumption due to reduced spending could impact negatively on VAT collections.

Irrelevance of National Boundaries
Given the trends in the global economy, tax reforms will increasingly entail external (regional or international) co-ordination, as well as internal administrative or legislative action.

In 1999 National Treasury was elected to chair a Southern African Development Community (SADC) working group on improving tax co-operation in the region. Its overarching objectives are to provide an attractive environment for foreign direct investment, encourage employment opportunities and promote stability and growth throughout the region. In respect of both tax and customs matters, SARS will also increasingly intensify collaboration with administrations of SADC countries. Consistent with these objectives the group will work towards three goals namely:
• Reducing harmful tax competition;
• Reducing tax-related costs of intra-SADC trade and investment; and
• Reducing revenue losses from smuggling and tax fraud.

Globalisation
Globalisation has positive and negative elements which affect SARS' revenue. While all countries now have easier access to each other for investment and trade, those with weaker economies are adversely affected by turmoil in stronger economies. For example, changes in the US financial market usually influence the SA markets. If the dollar strengthens because of strong growth in the US economy, our exchange rate to the dollar could weaken, thus directly influencing imports and exports. This is only one example of how SARS' revenue could be affected by external events.

Technology
Technology has dramatically changed production methods, trade between countries and service delivery to customers over the past few years. Companies that are benefiting the most from these developments are those involved in the development of microchips, computer programmes, infrastructure for data transfers and the Internet. It is these "new age" companies - on which investors are now focusing - that help other organisations to stay competitive, cost effective and to keep up with the changing environment.

This change in the technology environment has a direct impact on SARS.
Competitiveness of SA Tax Regime
Since 1960 many countries have undergone major tax reforms. Common objectives of all these reforms has been to simplify the tax structure thus reducing the difficulty of public administration of the tax system and reducing the private effort required to comply with the tax laws; minimising tax evasion and tax avoidance; develop a stable tax system.

Tax Competition
There is competition amongst countries, especially developing countries, for investment. Countries rationalised that heightened competition, or the need to compensate investors for perceived infrastructure or other disadvantages, necessitated tax breaks for direct investment, as well as financial flows. The export orientation of these economies and the vigorous use of tax incentives and discretionary privileges took tax competition to a new level.

Tax competition, however, compounds the task of tax administration, which in most countries are already failing to keep pace with the scale and complexity of capital flows. South Africa is chair of the SADC working group on improving tax co-operation in the region and one of its objectives is to reduce harmful tax competition.

Tax System
For stability of a tax system, it is necessary that:
• The legislation is well written to eliminate unintended tax exemptions or deductions (loopholes);
• The statutory rates of tax for each of the taxes are not so high as to create powerful incentives to promote tax avoidance schemes or to stimulate tax evasion activity;
• The tax revenue is adequate and consistent over the years; and
• The tax system is simple and the combined cost of administration and compliance is low.
SARS is committed to the principles of openness, integrity and accountability in its dealings with all its stakeholders.

The primary objective of any system of corporate governance is to ensure that the advisory board and executive committee, to whom the running of the organisation has been entrusted by the stakeholders, carry out their responsibilities faithfully and effectively, placing the interests of the organisation ahead of their own.

This process is facilitated through the establishment of appropriate reporting and control structures within the organisation.

SARS believes that, in all material respects, it complies with the provisions of the King Report’s Code of Corporate Practices and Conduct.

**KEY ASPECTS OF THE SARS’ SYSTEM OF CORPORATE GOVERNANCE:**

**ADVISORY BOARD**

The Advisory Board includes EXCO members who are chosen for their business acumen and skills. The Advisory Board meets regularly and monitors the performance of SARS and its executive management. It addresses a range of key issues and ensures that debate on matters of policy, strategy and performance is critical, informed and constructive. All Advisory Board members of SARS have access to the advice and services of SARS staff and, in appropriate circumstances, may seek independent professional advice concerning the affairs of the organisation at SARS’ expense.

**AUDIT COMMITTEE OF THE BOARD**

The Audit Committee is chaired by an independent non-EXCO member and operates in terms of a formally approved Audit Committee Charter, which clearly sets out the roles and responsibilities of committee members. The auditors have unrestricted access to this committee and the chairman of the committee. The Audit Committee reviews the effectiveness of the systems of internal control adopted by SARS operations with reference to the findings of
the auditors. Other areas covered include the review of important accounting issues, specific disclosures in the annual financial statements and a review of the major audit recommendations.

**TRANSFORMATION COMMITTEE**

**Remuneration**

The committee advises the Board on remuneration matters affecting SARS in general. This includes pension and provident schemes, incentive schemes, benefits and annual increases. The committee also reviews and amends policies, procedures and principles regarding the remuneration of Board members. The committee sets the remuneration of the Commissioner and people reporting to him.

**Human Resources**

The Committee also reviews, monitors and oversees SARS policies and practices regarding human resources, particularly with reference to succession, employment equity, training and industrial relations.

The Committee is also responsible for communication and transformation issues.

**ANNUAL FINANCIAL STATEMENTS**

The Commissioner is responsible for preparing the annual financial statements and other information presented in the annual report in a manner that fairly presents the state of affairs and results of the operations. The external auditors are responsible for carrying out an independent examination of "*inter alia*,” the annual financial statements and reporting their findings thereof. The auditors’ report is set out on page 48-55 and 69-72.

The annual financial statements contained on page 47 to 85 have been prepared in accordance with applicable laws and regulations. They are based on appropriate accounting policies and are supported by reasonable and prudent judgements and estimates. The Executive Committee has no reason to believe that SARS’ operations will not continue as going concerns in the year ahead.

**MANAGEMENT REPORTING**

There are comprehensive management reporting disciplines in place, which include the preparation of annual budgets by all operating units.

The relevant general managers approve individual operational budgets, while the Executive Committee reviews the budget. Monthly results and the financial status of operating units are reported against approved budgets and
compared with the previous year. Revenue and Expenditure projections and working capital levels are monitored on an ongoing basis.

INTERNAL CONTROL
SARS has put in place internal control measures and systems designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in various ways, depending on the particular circumstance. SARS has risk and loss control procedures in place, which are integral to our insurance programme.

ETHICS
Executive Committee, management and employees are required to observe the highest ethical standards ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach. SARS has an approved code of ethics to which all staff is required to adhere.

AFFIRMATIVE ACTION
SARS is committed to providing equal opportunities for its employees regardless of their ethnic origin or gender. Affirmative action strategies are in place to ensure that employees’ profiles will be more representative of the demographics of the regions. Progress in this key area is monitored at Board level.
8. PROFILE OF DIVISIONAL ACTIVITIES

8.1 REVENUE COLLECTION

Aiming for Increased Revenues
Driven by the will to succeed, the SARS’ Operations Division had set itself the challenge of not just achieving, but of exceeding the revenue target of R193 billion for the 1999/2000 financial year by collecting R200 billion.

The New Income Tax System (NITS)
The implementation of NITS already improved the turn-around time of assessments and these are now processed consistently. The development of electronic interfaces with various institutions, such as the deeds office, banks and life insurance companies, will speed up the assessment process considerably, as well as encourage accurate declaration of total income by taxpayers.

Further developments include interfaces with external parties such as Johannesburg Stock Exchange, Department of Home Affairs, etc.

Electronic Submission of Employee Tax Certificates (IRP 5’s)
In 1999 a system which generates electronic employees tax certificates was implemented. The validation measures built into the system ensure that all the components of gross remuneration are declared on the certificates. This enables automated calculation in respect of each individual certificate by the PAYE system which does calculations according to the prescribed statutory rates of tax during the reconciliation process. As the process is automated, discrepancies in respect of certificates issued by employers will be clearly identified.

Broadening the Tax Base
Over the past financial year, the initiative to broaden the tax base yielded good results. The following are active cases registered of various taxes administered by SARS in the current and prior years.
Debt Collections by SARS 1999-2000

During the financial year under review, SARS introduced the following initiatives in respect of the collection of outstanding debt:

- Specific management information on collections is now provided to offices and regions to give a consolidated view of their tax debt on all available systems. This included the first categorisation of debt on a national basis. Categories to identify risk types and accountabilities for VAT and PAYE systems have also been developed.

- A number of prosecution campaigns were launched to promote compliance. The February 2000 campaign delivered good results with 375 prosecutions.

- Old Mutual shares were taken as security in respect of outstanding tax obligations (on a similar basis as the SANLAM shares in November 1998.) In this manner, SARS collected approximately R500 million in outstanding taxes. On 31 March 2000, SARS was still holding 13 936 230 shares of Old Mutual and SANLAM to the value of R162 million as security.
• SARS initiated the Top 10 debtor’s project at the beginning of the 1999 tax year. R1.2 billion was collected from such debtors during the 1999/2000 year.

• The Top 500 provisional tax follow-up was initiated towards the end of the tax year and resulted in more than R600 million being collected.

• A manual call centre was introduced in February 2000 to test it as a potential collection mechanism. The collections call centre rendered assistance to the Johannesburg and Pretoria offices specifically. Approximately 12 000 cases were handled during the period 23 February to 31 March 2000.

• SARS put customs and revenue debt under the control of the collections division within Operations. In future, this division will address all risks with regard to deferments.

The following operational aspects have been identified for investigation as part of Operation’s transformation process over the next 24 months:
• Introduction of an automated call centre;
• The co-sourcing of small debts;
• Devising a training manual for all collectors;
• Initiating the teaming concept and the transition to teams;
• Introduction of a separate debt management system;
• Moving to risk based operations and scoring specifically;
• Introducing new collections policies;
• Categorisation and codes to address additional business needs;
• Devising a new shortened collections process which will be supported by appropriate management information;
• Creating norms to ensure the equal and fair allocation of resources; and
• Introducing new targets and measurement of staff performance.

Payment Methods
It is anticipated that the improvement of methods of payment will contribute to the effective collection of taxes, thus enabling the revenue target of R212 billion for the 2000/2001 financial year to be met. Information regarding improved payment methods, such as the VAT brochure which was distributed to 552 000 taxpayers, is communicated to taxpayers on a regular basis. Statistics show that payments at banks and via the electronic medium increased substantially from R25 billion during the 1998/1999 financial year to R52 billion during 1999/2000.

Hotline
The introduction of the SARS hotline for internal and external reporting of fraud proved to be very successful. Since the implementation of this medium, 4 513 cases have been reported, generating an income to the amount of R25 million.


8.2 CUSTOMS

In the financial year under review, the Customs division achieved the following successes:

- **Johannesburg International Airport**: 2 297 cases involving different commodities were successfully concluded. This resulted in penalties of R3 518 168 being collected.
- **Port Elizabeth**: Cases involving car audio equipment and quilt sets were successfully investigated. In addition, five instances of the illegal manufacture of beer were dealt with.
- **Worcester**: A case involving preservatives resulted in R427 037 being collected.
- **Cape Town**: 112 cases were finalised and a total amount of R2 128 436 was collected.

In the Free State and North West Province, which include Van Rooyens Gate, Maseru Bridge, Ficksburg Bridge, Caledonspoort, Ramatlabama, Skilpadshek, Kopfontein, Mmabatho and Bloemfontein, there were 282 detentions and 71 seizures over the past financial year. Penalties amounting to R896 446 were levied. 1 033 kg cannabis with a street value of R1 033 700 was seized.

The following steps aimed at improving the operational efficiency of the Customs division were taken over the past year:

- Improving its presence at non-commercial points to control and detect illegal movements.
- Placement of staff at Alexander Bay to assess traffic movements and enhance enforcement.
- Co-operating with local industries in order to use their premises and equipment to improve the quality of inspections country wide.
- Integrating Customs and Excise with the Mmabatho office of the Receiver of Revenue.
- Blitz operations aimed at targeting potential risk areas such as the evasion of duties, smuggling, round tripping and ghost exports.
- Export examinations; and
- Risk profiling and assessment training from UN.

All major airports are currently being upgraded to facilitate tax and trade more effectively.

An agreement with Portnet has been reached to build the requisite customs control and enforcement facilities at all international ports - Durban, Cape Town, Richards Bay, Mossel Bay, Port Elizabeth, East London and Saldanha. A scanner has already been installed at the Durban harbour to facilitate the search and risk profiling of containers.

SARS together with National Treasury has taken the lead in the SADC implementation policy and administration, which is important for industrial
and trade developments. This SADC Protocol is aimed at increased co-operation on implementation, by exchanging information, joint investigations and operational collaboration.

The South African government is currently negotiating with its partners in the Customs Union to revise a fair arrangement for the allocation of Customs and Excise duties within the union focusing on the allocation of excise duties and customs revenue. In addition, there are considerations around the development component, the administration of the pool and transitional arrangements.

Rules of Origin

The signing of asymmetrical reciprocal preferential trade agreements with the European Union (EU) and with the SADC heralded a new phase in the responsibilities of Customs Administration in South Africa, as the responsibility of administering the instrument of rules of origin is now placed on the export country.

A task team was initiated in May 1999 with SARS, Department of Trade and Industry (DTI) and National Department of Agriculture (NDA) as the major role players, which culminated in the implementation of Protocol 1 of the SA/EU Free Trade Agreement on 1 January 2000. The implementation of the SADC Protocol on Trade followed on 1 September 2000. Still on the agenda are the granting of approved exporter status in the SA/EU Free Trade Agreement and the effecting of Annexes in the SADC Protocol on Trade governing simplification of documentation, Customs co-operation and transit facilitation.

The implementation saw legislated changes to the Customs and Excise Act, Rules and Procedures promulgated, as well as additions to:

- the electronic import and database systems;
- the linking of 21 offices to capture export declarations and certificates of origin in real time;
- the appointment of additional personnel; and
- the establishment of audit/investigation teams for this purpose in the three major centres, i.e. Durban, Johannesburg and Cape Town.

Development of the infrastructure took into account the administration of future agreements that will be entered into by South Africa.
8.3 COMPLIANCE

A risk-based Audit Approach

SARS is transforming its compliance function into an audit and investigative function. In the process, SARS is focusing on becoming results-driven and applying a risk-based integrated approach together with value-added consideration.

SARS is also building its training and audit capacity with the aim of providing ongoing professional training to its staff. An audit survey undertaken during the financial year under review provided better insight into the training needs and staffing requirements of the audit component. These needs will be addressed shortly.

In future, audits will be conducted on the basis of risk profiling. The SARS Audit Risk Analysis Program enables audit management to target high risk and high impact cases being developed for corporate taxes. It is envisaged that this will incorporate VAT, PAYE and Income Tax in the coming years.

A process of market segmentation will, in future, underpin the audit function. Audit resources will henceforth be focused on target markets identified by means of market segmentation. This approach is already evidenced in the SARS Corporate Tax Centre’s specialisation in banks, life insurance companies and mining companies.

The future will also see an increased move towards integrated audits. To improve the utilisation of resources and to achieve efficiency gains, audits across all taxes will be undertaken simultaneously, with due cognisance taken of risks identified. In addition, such an approach will facilitate the multi-skilling of auditors. During the course of the past financial year, 171 auditors were involved in such integrated audits.

Special Investigations

Over the past financial year, the Special Investigations Division moved from a division that previously concentrated on establishing undeclared income to one that now concentrates on investigating revenue-related criminal offenses, which often result in criminal prosecutions. The financial aspect, although still important, has thus become a secondary driver. To this end, the division’s investigators have begun formal training in the methodology of criminal investigations.
Statistics for 1999 – 2000 Special Investigations

<table>
<thead>
<tr>
<th>Case on Court Roll (1999-2000)</th>
<th>64</th>
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</thead>
<tbody>
<tr>
<td>Convictions (1999-2000)</td>
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</tr>
<tr>
<td>Appeals</td>
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<tr>
<td>Fines imposed</td>
<td>R1 314 000</td>
</tr>
<tr>
<td>Value of cases (i.e. amount of fraud)</td>
<td>R204 840 279</td>
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<tr>
<td>Amount of money recovered in court</td>
<td>R 75 307 794</td>
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<tr>
<td>Number of cases resulting in direct imprisonment</td>
<td>13</td>
</tr>
<tr>
<td>Years of direct imprisonment handed down in total</td>
<td>99 years</td>
</tr>
</tbody>
</table>

Overview of Tax Avoidance, Evasion and Criminality

Road Fuel Testing Unit

SARS' new fuel testing unit was introduced 1 March 2000 to police mixing of fuels by means of a chemical tracer in paraffin, which is easy to test for, but virtually impossible to remove as it cannot be filtered out or neutralised chemically.

The addition of this marker will result in benefits for the fiscus from the fuel industry, as adulteration will be subject to severe penalties and taxation at ten times the petrol rate if the traced product is detected.

Intelligence Unit

Initially, the manner in which cases were investigated by Special Investigations was unclear and unfocused, and case selection was done in an unstructured and uncoordinated way. Within the framework of the transformation process at SARS, it was decided to implement an intelligence-driven approach to the division. Strategic considerations required a highly focused overview of cases to be investigated by the division on a national basis. This led to the introduction of an intelligence unit within the Special Investigation division to give it the capacity to identify threats nationally, highlight trends and tendencies, and focus on matters identified as ‘A’ priority-rating in terms of national case selection criteria.

The intelligence unit will expand its service to include customs and audit, as well as grow its relationship with the private sector and other government departments.

The Intelligence Unit conducted a Suspicious Activity Analysis of which 1 036 Suspicious Activity Reports were analysed. The results were as follows:

Of the 1 036 Suspicious Activity Reports analysed, 46% were assigned High Priority Status (HP), 37% Low Priority Status (LP), 15% Medium Priority Status (MP), and 0.09% Record Only Status. Suspicious Activity Reports are prioritised according to the SARS Special Investigations Interim Threat Analysis.
This table indicates the top ten Revenue Related Violations as indicated by the Suspicious Activity Reports. Of the 1,036 Suspicious Activity Reports analysed the top ten violations account for 995 (96%) of all violations reported.

Revenue related violation accounts for 534 (51%) of the violations. Customs related incidents are relatively low, this is mainly due to under reporting of suspicious activities in this sector. However, once the suspicious activity report has been introduced to customs officials the reporting of customs related suspicious activities would increase.

This table is a break down of the category Services sector of the industry. There are an alarming number of incidents under the Other (397) category of the services sector with no reference as to what that service indicate. This is a clear indication of inadequate categories on the current database for the classification of incidents per sector of industry.

Future Trends

• There will be a significant increase in the number of Suspicious Activity Reports captured on the database in the near future. This is mainly due to Suspicious Activity Reports received from the South African Revenue Service Hotline that has already been incorporated in the database from October 2000. Entries will average at 200 to 300 Suspicious Activity Report entries per month.

• When the Suspicious Activity Database is fully functional and available on the Internet to the public a further increase in the number of Suspicious Activity Reports will be experienced. No estimates can be given at this stage.

This analysis gives an indication of the information currently captured on the Suspicious Activity Prototype Database, and is more of a strategic nature. An in-depth analysis of the information would be required if operational and tactical planning is to be done. It is recommended that modus operandi category be identified with regard to specific sectors of industry that will enhance the analysis capacity and identifying of organised crime patterns.

Anti-Corruption Unit

The Anti-Corruption Unit was established in May 1999 with a mandate to investigate cases of internal fraud and corruption. The need for this unit
arose when it became clear that the majority of revenue fraud cases often involved SARS personnel, and that the South African Police Services resources were too limited to investigate such cases.

The unit receives information from the fraud hotline, the intelligence unit, from within SARS itself, as well as from law enforcement agencies. It has already achieved positive results in various interventions, such as at Johannesburg International Airport, Durban Customs, Beit Bridge, Klerksdorp and Johannesburg.

Security

Security audits at SARS offices were largely neglected in the past. To give security issues the requisite attention, a National Security Policy aimed at ensuring a standardised security service within SARS has been devised. The policy will be implemented on a national basis and will be controlled, monitored and administered by security staff from Head Office. The introduction and implementation of the policy will go hand in hand with a National Security Awareness Programme.

Security audits conducted by Head Office at branch level will ensure that the policy is adhered to at all times. To assist the security division in monitoring the security situation at branch offices, they will be required to complete security checklists on a six-monthly basis.

Investigations Training

Successful implementation of the new criminal investigative approach calls for additional training. To this end, an introductory Fraud Investigation Course was developed in collaboration with the South African Police Services Detective Academy and Justice Training Academy of the Reserve Bank. Training will commence with an overview course for Branch Managers. By mid 2001, all members of Special Investigations will have attended the introductory course.

8.4 LAW ADMINISTRATION

The transformation process at SARS called for a review of the fiscal legislative environment.

The Legislation Division collaborated with Department of Finance on the formulation and enactment of tax policy, more specifically to the taxation of foreign dividends, the change to a residence basis of taxation, the review of the tax treatment of public benefit organisations (PBOs) and the introduction of capital gains tax. The section prepared the Skills Development Act, 1999 and the Revenue Laws Amendment Act, 1999, as well as researched the impact of e-commerce on taxation. It also issued practice notes on the tax implications of
lending arrangements in respect of marketable securities and on transfer pricing. During the financial year under review, various initiatives were undertaken, inter alia:

- revising the tax treatment of intellectual property;
- counteracting unacceptable tax deferral opportunities;
- attacking the aggressive structuring of remuneration packages (salary sacrifice and non-cash benefits);
- developing a new database to record the tax-exempt status of PBOs;
- establishing appeal teams to deal more efficiently with objections and appeals;
- identifying deficiencies in the method of calculation of tax payable by long-term insurers; and
- closing loopholes in relation to the use of employment companies and the use of restraint of trade payments.

In an effort to ensure uniformity in the application of legislation on a national basis, 18 Circulars were issued to Receivers of Revenue. A number of Practice Notes were also issued.

Indirect Taxes introduced and implemented significant changes to the VAT legislation over the past financial year. The threshold for the compulsory VAT registration was increased to R300 000. The introduction of a minimum threshold of R20 000 contributed to reducing the number of VAT vendors on the VAT register by approximately 60 000 vendors, allowing resources to be concentrated on high value cases. More stringent registration requirements were instituted to combat VAT fraud. Technical and training assistance was provided to Namibia, Tanzania, Ghana, Sudan and Lesotho in regard to them implementing VAT.

A new, simplified VAT guide was published which, in conjunction with the VATNEWS publications, informs vendors of developments and issues regarding VAT.

Legal Service, which conducts litigation in the Special Income Tax Court on behalf of the Commissioner, was involved in the following matters during the past year:

- Appeals dismissed 22
- Appeals upheld 22
- Cases withdrawn by taxpayers 51
- Cases postponed 15
- Cases conceded by SARS 10
- Cases settled 14
- Referred back 5

TOTAL 139
During the past year the Section International Treaties concluded numerous Double Taxation Agreements (DTA’s). The following DTA’s were ratified in both countries and are, therefore, in force: Australia, Slovak Republic and Tunisia. The following DTA’s were ratified by South Africa only: Greece and Luxembourg. Numerous DTA’s are currently in the process of being negotiated. A customs agreement for the rendering of mutual assistance between the USA and South Africa was negotiated and signed. A similar agreement between the Czech Republic and South Africa was negotiated but has not yet been signed.

8.5 TECHNOLOGY SERVICES

Changing certain of its business processes to improve efficiencies has put SARS in a situation where the existing business environment has to be maintained, while far-reaching changes are being implemented at the same time. This calls for ongoing support of the interaction between the present and the future within the appropriate framework.

As SARS must align its supporting infrastructure, the information and communication architecture, to its new business architecture, enterprise application integration will be one of the main supports, providing critical information for SARS’ decision-makers to move forward.

To effectively support SARS’ new business model, new building blocks for the technology environment will be devised. This will ensure that SARS is in a position to improve on service delivery and to integrate enterprise applications with external offerings.

Since SARS is becoming more process-orientated, the independent monolithic approach to supporting technology will not work in the future. A new paradigm regarding information, security and technology will be required to provide for:
- External focus and new client types;
- E-filing;
- External service providers;
- New technologies such as the Internet;
- Middle-ware; and
- E-Business / E-Commerce strategies.
SARS' current technology focuses on supporting business systems that are internally directed and rigid in design, all of which cannot support the future vision of SARS, or address the pressing problems SARS is experiencing.

Over the past financial year, SARS has dealt effectively with the issues of capacity building in the mainframe and networking environments, and now has both a world-class network infrastructure and processing centre.

In future, investment will be directed towards SARS' new way of doing business. In this regard, SARS has already moved to a process design, which applies project management principles. This means that new applications will be developed to interface with different types of offerings available in the business world.

SARS is exploring the e-world by undertaking a series of "proof of concepts" with various potential partners. Such a "proof of concept" is currently underway for e-filing, e-acquisition and certain initiatives to base SARS' operations on electronic information. The aim is for SARS to collect 90% and more of all revenue by electronic means. This would indeed enable SARS' business to be totally information-driven, facilitating progression to an audit approach and to risk profiling.

The New Income Tax System (NITS)

The old Income Tax System was a batch system with many manual functions.

On Friday 17 December 1999, SARS successfully introduced NITS in all its Receiver offices. NITS is primarily an online system with very few batch processes, allowing SARS to process information much more rapidly than with the previous system.

It is believed that the introduction of NITS will bring about the following benefits in general:

• Create a more stable system and reduce down-time;
• Enhance taxpayer service through an improved revenue administration;
• Ensure increased system control;
• Provide much improved technology;
• Enable SARS to increase revenue collections; and
• Underpin the tax base broadening initiatives.

This new technology will lead to a new culture at SARS: paper-based manual processes will be eliminated as far as possible and substituted with automated processes.

On 30 March 2000, 228 applications for directives were electronically submitted. NITS successfully processed these without any human intervention. With the...
electronic interface, a turnaround time of 24 hours is possible, as opposed to the 20 working days on the old system.

Considering the size and complexity of NITS, its implementation has been very successful. Future modules including STC and write-offs that are currently under development will be implemented in April 2001.

Notwithstanding these facts, a number of teething problems are being experienced, inconveniencing both taxpayers and SARS. These problems are being addressed as they occur.

**Year 2000 Compliance**

There were no Year 2000 compliance problems experienced in January 2000.

**8.6 HUMAN RESOURCES**

During the year under review, significant changes were witnessed in human resources structures, policies and practices at SARS, thus providing substantial impetus for the transformation process.

Human Resources led the process of change in SARS and was responsive to the urgent need to provide a new work context for new policies.

**Grading and Remuneration Policy**

The introduction of a new job evaluation system and remuneration policy provided the foundation for many of the other HR change interventions that followed. Benefits of the new system include a significant reduction in the number of grades at SARS, which improves flexibility, communication and employee participation.

Implementation of this project was flawed, not least because it was introduced with haste to enable SARS to pay competitive salaries, in order to attract and retain the necessary skills. A process allowing each employee to verify his/her job description and grade was recently completed, and is expected to enhance the legitimacy of the new system.

**Career Management**

Career ladders were developed for audit, administration, and account maintenance/recoveries personnel. Task teams working on career paths for special investigations, law administration and customs personnel will complete their work during 2000.

**Performance Management**

SARS required an interim bonus arrangement for the transition period between the former incentive bonus system and the new performance management system, commencing in the 2000/2001 financial year.
The aim of the 1999/2000 Performance Bonus scheme was to reward staff for the achievement of strategic and operational goals. It was designed to reward the way in which employees have worked through exceeding revenue targets and through the pursuit of quality in working practices.

A multi-disciplinary task team, including trade union representatives, developed a performance management system that is being implemented throughout SARS after extensive training of all staff. Each staff member’s performance during the current year will be measured in terms of individual performance agreements concluded with each employee.

The scheme was designed to reward:

a) All SARS employees – based on the revenue target being exceeded
b) A maximum of 500 recipients categorised as follows:
   • Regional office reward – based on quality of working practices in one Regional office;
   • Branch office reward – based on quality of working practices in each region of the best;
     - Revenue office (in Gauteng region, 2 offices could be nominated);
     - Customs office;
     - Border post; and
   • Individual reward – based on performance excellence.

Training

A recently completed skills audit will provide a comprehensive profile of staff competencies and permit an assessment of the extent to which SARS’ future needs can be met by existing personnel. A substantial mismatch is anticipated, which will oblige substantial retraining.

During 1999/2000, approximately 845 internal courses were attended by more than 11 000 participants at SARS. In addition, about 1 000 employees benefited from income tax training provided through the Rand Afrikaans University. Other key training initiatives included NITS and rules of origin courses. The International Labour Organisation (ILO) sponsored development of a labour relations training course for SARS, which will be presented to all line managers and shop stewards during 2000/2001.

An important focus of activity is the development of new audit capacity. A taxation auditor programme will be introduced later this year, which will feed into the
respected Master Taxation Auditor (MTA) programme offered at SARS. A partnership with the Association of Certified Chartered Accountants (ACCA) is also on the cards.

Planning has started on the establishment of a SARS college, which is likely to take the form of a virtual and a residential campus. Partners in this initiative will include Harvard University and the Open University, in addition to local tertiary institutions. In the longer term, SARS could consider providing customs and revenue administration courses to other countries in the region.

Finally, SARS has played a key role in the formation of a sector education and training authority (SETA) for the financial and accounting services industry.

Affirmative Action
Relatively low staff turnover-rate, coupled with efforts to freeze payroll costs, constrained SARS’ ability to promote workforce representation. During 1999/2000, the total headcount declined by about 400. A moratorium was imposed on the appointment of administrative personnel to support the strategic shift to an audit focus.

The gender composition of the workforce remained unchanged (68% female and 32% male), while the percentage of black employees has increased by 5% to 37% since April 1998. Of the 314 new appointments made in 1999/2000, 53% were black and 50% female. Even though 77% of the managers appointed were black, only 22% of managers at SARS are African, Coloured or Indian. Also problematic is the low number of women in management ranks. A drive to remedy this situation is underway.

About 180 black employees participated in phase one of a programme to identify leadership potential in the organisation. Of these, 22 emerged as "high potentials". Fast-track career opportunities have been identified in consultation with them, and SARS has registered them for the Open University management programme, which culminates in an MBA qualification. About 25 white managers from the regional and branch offices are also enrolled for this course. Phase two of this programme starts soon.

Policy review
New policies were introduced to regulate recruitment, promotion, transfers, redeployment, grievance handling, disputes, car allowances, housing allowances, annual leave, maternity leave, study leave, gifts, etc. The merit assessment and notch/rank promotion systems and policies were abolished. The policy review process is continuing, and will include new approaches to sick leave/absence management, coupled with a rationalisation of health insurance options at SARS.
Labour relations

Relationships between management and the two trade unions recognised by SARS, namely PSA and NEHAWU, were put to the test by the change process. NEHAWU declared a dispute over the new grading and remuneration system, which was resolved amicably.

The year ended on a sound note with the conclusion of a wide-ranging recognition agreement with both unions, and a wage deal that has been well received.

The backlog of disciplinary cases was cleared, and the services of independent arbitrators were enlisted to expedite hearings. A zero tolerance approach to internal corruption and a more robust approach to misconduct in general saw 44 employees dismissed in the year under review, compared with 13 the previous year.

Redeployment

Human Resources managed the redeployment of employees from the Johannesburg and Germiston offices to staff the new Alberton office, and also facilitated the transfer of personnel from Bisho to East London as part of a downsizing exercise.

Human resources management information system

A new Human Resources management system was implemented (after some delays) in April 2000, and is operating successfully despite teething problems. The system facilitates the administration of new Human Resources policies and procedures, which could not be achieved with the public sector perusal system.

8.7 COMMUNICATIONS

The Communications division has seen significant changes during the year under review. The main thrust has been in re-focusing the division on its basic responsibility of facilitating communications within SARS. The activities below show that, despite severe understaffing, the division has performed relatively well in the last nine months. The past financial year has seen the division focus more on internal communications to facilitate a smooth transition and create a culture of openness and transparency.

• Developed a number of educational pieces on taxpayers’ rights and obligations, which was published in the Financial Mail. In addition, this section successfully negotiated a column on tax in the Sowetan. The first article was published on October 12, 1999.

• Publicised the launch of the Johannesburg and Bellville Magistrates Tax Courts. The involvement included interviews with various media on radio and in newspapers.

• Redesigned the SARS official newsletter, "Revenews", as well as produced well over 60 "Newsflashes". The division also developed a new, weekly electronic newsletter for managers.
Apart from managing a number of SARS campaigns, events and launches were very successful and has introduced a new culture of exhibiting at various shows around the country. In an event organised by SARS’ Customs Transformation Programme, the section exhibited at the Johannesburg International Airport.

Activities
- Prosecution Campaigns
- Y2K
- Statistics
- Stakeholders Database
- Vuka Campaign
- Alberton Office
- Pretoria Show
- Trade Administration Workshop
- International Customs Symposium
- Live Video Broadcasts

8.8 INTERAVAL AUDIT

SARS advisory council has ultimate responsibility for the system of internal controls within the organisation. This system is designed to provide reasonable, but not absolute, assurance that assets are safeguarded at appropriate cost, and that transactions are executed and recorded in compliance with SARS’ policies and procedures.

Internal audit provides the audit committee and executive management with assurance that the internal controls are sufficient to manage the risks that could lead to the organisation not achieving its objectives.

Due to the size of SARS and Internal Audit’s limited resources, a risk-based audit approach was followed to identify the audit areas for review. The most critical audit area identified that received our focused attention, was Y2K. Fortunately, SARS did not experience any major systems failures due to the Y2K issue. The remaining audits focussed mainly on Operations, the Financial Department and on the development of the New Income Tax System (NITS). Selected performance audits were also conducted and Control Self- Assessment workshops were held during the year.

Throughout, Internal Audit worked in close collaboration with the Auditor-General (AG) to ensure that work is not duplicated and in some cases, the AG relied on the work performed by Internal Audit (e.g. transfer of data to NITS).
Three Audit Committee meetings were held during the year whereby Internal Audit and the AG were fully supported and given the opportunity to highlight their findings.

The Institute of Internal Auditors (IIA) issued a new definition of Internal Auditing by which internal auditing is considered an objective assurance and consulting activity, independently managed, which adds value by evaluating and improving the effectiveness of the organisation’s risk management, control and governance processes. In an initiative to comply to this new definition, Internal Audit performed, in addition to the planned audits, various ad hoc reviews as requested by management, as well as assisted management in a consulting capacity on various projects such as the mentioned Y2K project.

To improve on our services, EXCO approved the filling of 9 additional posts on 6 March 2000. These being:
• Six Financial Internal Auditors;
• Two Information Systems Internal Auditors; and
• A regional Internal Audit Manager.

New requirements such as the Public Finance Management Act (PFMA) and the latest Standards of Internal Auditing being developed by the IIA, will create new challenges for Internal Audit. Future initiatives will include the filling of the approved posts, providing ongoing training to the Internal Auditors and conducting audits in the Customs and Excise environment which has never been audited before. Further expansions to the division are also envisaged to improve on our services to the organisation.

8.9 FINANCE

The Finance Department has established a stronger platform to pursue its longer-term targets in respect of:
• Operational efficiencies;
• Cost reduction;
• Skills development;
• Knowledge management; and
• Accurate and timeous reporting to the fiscus.

A customer-focused and sustainable strategic plan for the Finance Division has been adopted. The objectives of this plan are threefold:
• Getting the basics right;
• Customer service; and
• Capacity building.
Implementation of the Public Finance Management Act (PFMA)

The PFMA is effective from 1 April 2000.

The Finance Division of SARS initiated a project, which ensured the finalisation of a PFMA implementation plan by the end of August 2000. This plan includes the assessment of existing policies, procedures and systems in all divisions and areas and the identification of changes and improvements to ensure compliance with the PFMA. At the same time, additional policies and procedures which are necessary to ensure compliance are being developed and implemented. Substantial changes to existing computer systems to support compliance with PFMA are anticipated. The implementation of written delegations of authority in all areas together with the monitoring mechanisms in all processes are included in the plan.

A PFMA implementation committee has been established and will be responsible for the successful implementation of the Act.

SARS will be fully compliant with the Public Finance Management Act by 1 April 2003.

Administered Revenue

Administered Revenue has initiated several projects during the year under review with the specific purpose of improving the integrity of financial information. New initiatives to administer the bank accounts have been implemented so as to improve the control over the bank function.

Tenders for the supply of an Integrated Financial Management System have been invited. The first phase of the implementation will focus on Revenue Accounting and it is foreseen that this phase will be implemented during 2001.

The benefits of the above implementation, together with the Siyakha programme, will contribute greatly towards the attainment of our objective to improve the skill levels of our people.

Own Accounts

An extensive action plan has been initiated to ensure that the accounting records are an accurate reflection of the transactions undertaken by SARS. This has included a complete revision of all-accounting policies and procedures within the division. It is anticipated that this review will place the expenditure accounting division in a strong position to meet its commitments in terms of control and reporting.

A critical aspect of this is the ability to meet the requisite reporting deadlines, but also to facilitate reporting in accordance with GAAP.

Even though the organisation has made vast inroads in many areas there is still a long road that lies ahead. SARS is however confident and motivated to continue in addressing all the challenges awaiting the organisation.
9. FINANCIAL REVIEW

The following Income Statement illustrates the national government net revenue collected and accounted for on the cash basis of accounting during the year under review.

NATIONAL GOVERNMENT REVENUE

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R'000</th>
<th>1998-99 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>116,503,604</td>
<td>108,383,395</td>
</tr>
<tr>
<td>Value-added tax/Sales tax</td>
<td>48,330,217</td>
<td>43,989,785</td>
</tr>
<tr>
<td>Fuel levy</td>
<td>14,289,798</td>
<td>13,640,009</td>
</tr>
<tr>
<td>Excise duties</td>
<td>9,470,400</td>
<td>8,571,750</td>
</tr>
<tr>
<td>Customs duties</td>
<td>6,517,798</td>
<td>5,985,664</td>
</tr>
<tr>
<td>Other taxes</td>
<td>4,854,302</td>
<td>4,040,920</td>
</tr>
<tr>
<td>Ordinary levy</td>
<td>12,979</td>
<td>17,405</td>
</tr>
<tr>
<td>Import surcharge</td>
<td>369</td>
<td>1,623</td>
</tr>
<tr>
<td>Non- Taxation</td>
<td>5,285,816</td>
<td>5,073,395</td>
</tr>
<tr>
<td>Departmental receipts</td>
<td>4,918,808</td>
<td>4,967,863</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>246,924</td>
<td>47,817</td>
</tr>
<tr>
<td>Mining lease and ownership</td>
<td>120,084</td>
<td>57,715</td>
</tr>
<tr>
<td>Less: Payment in terms of Customs Union Agreements</td>
<td>7,197,298</td>
<td>5,576,715</td>
</tr>
</tbody>
</table>

REVENUE: INCOME TAX

- Persons and Individuals
- Companies (other than mining)
- Mining Companies
- Other

REVENUE: OTHER TAXES

- Donations Tax
- Estate Duty
- Marketable Securities Tax
- Stamp Duties and Fees
- Transfer Duties
- Levy on Financial Services

REVENUE: CUSTOMS & EXCISE

- Customs Duty
- Excise Duty
- Surcharge Duty
- Service Duties
**Main Budget Framework**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Revenue</strong> (actual cash received)</td>
<td>147,052</td>
<td>165,335</td>
<td>184,422</td>
<td>200,221</td>
</tr>
<tr>
<td><strong>Tax Revenue as % of GDP</strong></td>
<td>23.2</td>
<td>23.6</td>
<td>24.4</td>
<td>24.5</td>
</tr>
<tr>
<td><strong>Other receipts &amp; repayments</strong></td>
<td>3,667</td>
<td>3,304</td>
<td>3,966</td>
<td>3,90</td>
</tr>
<tr>
<td><strong>Less: SACU transfers</strong></td>
<td>(4,363)</td>
<td>(5,237)</td>
<td>(5,122)</td>
<td>(7,197)</td>
</tr>
<tr>
<td><strong>RDP fund grants (1)</strong></td>
<td>139</td>
<td>169</td>
<td>456</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>146,495</td>
<td>163,571</td>
<td>183,722</td>
<td>196,955</td>
</tr>
<tr>
<td><strong>Total revenue as % of GDP</strong></td>
<td>23.1</td>
<td>23.4</td>
<td>24.3</td>
<td>24.1</td>
</tr>
</tbody>
</table>

**Notes**

1) From 1999-00 foreign grants received in the RDP Fund for government projects do not flow through the National Revenue Fund.
<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE COLLECTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>202,085,978</td>
<td>200,480,955</td>
</tr>
<tr>
<td>Non-taxation</td>
<td>7,070,195</td>
<td>5,327,933</td>
</tr>
<tr>
<td><strong>COLLECTION EXPENSES</strong></td>
<td>7,287,506</td>
<td>3,241,187</td>
</tr>
<tr>
<td>Doubtful debts</td>
<td>6,673,862</td>
<td>2,620,686</td>
</tr>
<tr>
<td>Write-off of receivables</td>
<td>597,500</td>
<td>611,498</td>
</tr>
<tr>
<td>Theft and losses</td>
<td>16,144</td>
<td>9,003</td>
</tr>
<tr>
<td><strong>NET REVENUE COLLECTIONS</strong></td>
<td>194,798,472</td>
<td>197,239,768</td>
</tr>
<tr>
<td><strong>REVENUE - OWN ACCOUNTS</strong></td>
<td>1,793,417</td>
<td>1,827,381</td>
</tr>
<tr>
<td>Grant received</td>
<td>1,787,118</td>
<td>1,820,596</td>
</tr>
<tr>
<td>Interest received</td>
<td>3,660</td>
<td>4,132</td>
</tr>
<tr>
<td>Other revenue</td>
<td>2,639</td>
<td>2,653</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td>1,906,308</td>
<td>1,663,213</td>
</tr>
<tr>
<td>Administrative expenditure</td>
<td>316,798</td>
<td>185,119</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>85,473</td>
<td>52,415</td>
</tr>
<tr>
<td>Finance charges</td>
<td>2,721</td>
<td>760</td>
</tr>
<tr>
<td>Miscellaneous expenditure</td>
<td>2,573</td>
<td>10,543</td>
</tr>
<tr>
<td>Personnel expenditure</td>
<td>1,177,726</td>
<td>1,212,502</td>
</tr>
<tr>
<td>Professional and special services</td>
<td>266,148</td>
<td>191,672</td>
</tr>
<tr>
<td>Research and development costs written off</td>
<td>-</td>
<td>10,202</td>
</tr>
<tr>
<td>Provision raised for unidentified items</td>
<td>54,869</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net revenues for the year</strong></td>
<td>194,685,581</td>
<td>197,403,936</td>
</tr>
<tr>
<td><strong>Paid to the National Revenue Fund</strong></td>
<td>194,798,472</td>
<td>197,239,768</td>
</tr>
<tr>
<td>Funds remitted to the National Revenue Fund</td>
<td>197,645,992</td>
<td>182,823,629</td>
</tr>
<tr>
<td>Balance of funds to be remitted upon collection</td>
<td>(2,847,520)</td>
<td>14,416,139</td>
</tr>
<tr>
<td>(Decrease)/Increase in surplus</td>
<td>(112,891)</td>
<td>164,168</td>
</tr>
<tr>
<td>Accumulated surplus b/fwd</td>
<td>136,003</td>
<td>(28,165)</td>
</tr>
<tr>
<td>Accumulated surplus c/fwd</td>
<td>23,112</td>
<td>136,003</td>
</tr>
<tr>
<td>Collection costs - cents per rand collected</td>
<td>0.98</td>
<td>0.84</td>
</tr>
<tr>
<td>Fixed assets to revenues</td>
<td>0.097%</td>
<td>0.114%</td>
</tr>
<tr>
<td>Revenue collections per capita - R 000</td>
<td>17,589</td>
<td>15,779</td>
</tr>
<tr>
<td>Collection costs per capita - R000</td>
<td>172</td>
<td>133</td>
</tr>
<tr>
<td>Personnel costs per capita - R000</td>
<td>106</td>
<td>97</td>
</tr>
</tbody>
</table>
### SOUTH AFRICAN REVENUE SERVICE - AGGREGATED BALANCE SHEET
**AS AT 31 MARCH 2000**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td>R’000</td>
<td>R’000</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>188,262</td>
<td>224,772</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>33,999,202</td>
<td>33,775,611</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>2,563</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>32,693,484</td>
<td>33,290,248</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,123,688</td>
<td>482,800</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>182,030</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>34,187,464</td>
<td>34,000,383</td>
</tr>
</tbody>
</table>

| **CAPITAL RESERVES AND LIABILITIES** |       |            |
| Capital and reserves       | 103,778 | 216,669    |
| Asset revaluation reserve  | 48,302  | 48,302     |
| Capital reserve on establishment | 32,364 | 32,364     |
| Accumulated surplus        | 23,112  | 136,003    |

| **Accumulated balances due to** |       |            |
| National Revenue Fund upon collection | 22,469,045 | 25,316,565 |

| **Current liabilities** |       |            |
| Trade and other payables          | 277,111  | 419,537    |
| Taxation refunds due              | 11,337,530 | 7,855,530  |
| Bank overdraft                     | -        | 192,082    |

| **Total capital, reserves and liabilities** |       |            |
|                                             | 34,187,464 | 34,000,383 |

### AGGREGATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2000

#### CASH FLOWS FROM OPERATING ACTIVITIES

- Net deficit for the year: (112,891)
- Net revenue collections: 194,798,472
- Adjustments for:
  - Depreciation: 85,473
  - Interest received: (3,660)
  - Finance charges: 2,721
  - Payments per customs union agreements: 7,197,298
- Operating surplus before working capital changes: 201,967,413
- Working capital changes: 3,298,013
- Decrease in accounts receivable: 596,764
- Decrease in inventories: 2,563
- Decrease in accounts payable: (142,426)
- Increase in taxation refunds due: 3,482,000
- Increase in other assets: (640,888)
- Cash generated from operations: 205,265,426
- Interest received: 3,660
- Finance charges: (2,721)
- Payments per customs union agreements: 7,197,298
- Payments to National Revenue Fund: (197,645,992)
- Net cash inflow from operating activities: 423,075

#### NET CASH OUTFLOWS FROM INVESTING ACTIVITIES

- Acquisition of property, plant and equipment: (48,963)
- Increase in cash and cash equivalents: 374,112
- Cash and cash equivalents at beginning of year: (192,082)
- Cash and cash equivalents at end of year: 182,030
10. THE YEAR AHEAD

The 2000/2001 tax year will without any doubt prove to be a taxing but extremely exciting period for SARS. The successful implementation of a number of initiatives lies ahead of the organisation, amongst them being:

RESIDENCE BASED TAXATION
Draft legislation will be presented informally to the Portfolio Committee on Finance, and will be made available on the National Treasury and SARS Online web sites. It is anticipated that hearings will be held before the Portfolio Committee on Finance in October 2000.

CAPITAL GAINS TAX
SARS and the National Treasury will continue to consult with various industries and their regulators. Consultations between SARS and the National Treasury will commence on policy aspects of the capital gains system. Visits by foreign experts on capital gains tax have been scheduled for middle to late October 2000.

COLLECTIONS PLAN AND TRAINING OF COLLECTORS
SARS will be implementing the Debt Management System in October 2000. SARS intends to code the whole of the debtors' book above the suppression level by end of February 2001.

Training of all collectors will be rolled out. Some 35 trainers will conduct training nationally. More than 400 collectors will be trained.

SKILLS DEVELOPMENT LEVY
Skills Development Levy will be fully implemented before the end of December 2000.

UIF
The UIF Collection and Administration System will be developed during the course of the financial year.

AIR PASSENGER TAX
The Air Passenger Tax System will be developed and implemented this financial year.
EMPLOYMENT COMPANIES

Employers will be notified regarding the management of PAYE for Employment Companies and Trusts. Changes to the NITS to accommodate this legislation will be developed.

FOREIGN DIVIDENDS

Retirement funds will be notified regarding the treatment of Foreign Dividends and credits and Retirement Fund Tax (RFT). Provisional Tax returns will be amended accordingly. Changes to NITS to accommodate this legislation will be developed.

SMALL BUSINESS CORPORATIONS

Changes to the NITS to accommodate this legislation will be specified and developed.

BULK DATA CAPTURE SYSTEM

The Bulk Data Capturing System will be implemented in the ten largest offices. This should substantially reduce capturing errors on Income Tax returns.

NITS

Priority attention is given to developing STC (Secondary Tax on Companies) functionality and amending the system for the budget initiatives. The online interface to the Credit Bureau will be implemented, as well as the interface to SACRO (South African Company Registration Office).

AUDIT CHANGES

Four pilot audit centres will be established – Durban, Randburg, Bellville and Germiston. An audit training program will be undertaken with the assistance of the Internal Revenue Service (US).

UPDATE ON FINANCE DIVISION

A project will be launched during the year to address the Auditor-General’s concerns regarding the SARS own accounts.

FIXED ASSET MANAGEMENT PROJECT

This project with a milestone of 31 January 2001 will be launched this year.

PFMA

The Finance Division of SARS will initiate a project during April 2000, which will ensure the finalisation of a PFMA implementation plan by the end of August 2000.
TECHNOLOGY SERVICES DIVISION (TSD)

The TSD environment will be restructured into three distinct sections under a new General Manager. The three sections are Application Solution Delivery, Service Delivery and Shared Services. Some of the major issues at TSD are the re-alignment of the Information and Communication Architecture with the strategy that SARS business views will follow in support of the new Business initiatives.

RESTRICTURING WITHIN THE OPERATIONAL ENVIRONMENT

Restructuring within the operational environment will be initiated during the next two months and will focus on the Top 10 offices after which the other branches will be addressed.

The focus is on addressing the following

• Back logs;
• Getting the basics right; and
• A more representative structure.

CUSTOMS CHANGES

A Strategic Framework will be drafted for a new approach to customs. Customs Control in conjunction with Department of Trade and Industry will be implemented.

SARS will enter negotiations with Portnet on the port community system and joint venture on acquisition and operation of scanners.

A programme to organise funding for Customs operations via the United States Agency for International Development (USAID) and partnerships with private sector, e.g. with the Customs Law Enforcement Task Group, will be deployed.

THE WAR ROOM CONCEPT

As a result of various issues backlogs were created in the following areas:

• Return control;
• Check return;
• Bulk data capturing; and
• Pre-assessment.

The major problem was found to be in the Johannesburg & Pretoria office and due to limited funds it was decided to concentrate on these two areas. An office (War Room) will be established in Pretoria where these backlogs are addressed in a "production line" manner. It is envisaged that the backlogs will be erased within six months. Temporary & permanent staff will be utilised in this exercise. By removing the backlogs out of the office we will enable offices to keep current work up to date.
11. Financial Statements – Administered Revenue
For the Year Ended 31 March 2000

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<td>Cash flow statement for the year ended 31 March 2000</td>
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</tr>
<tr>
<td>Notes to the annual financial statements</td>
<td>59</td>
</tr>
</tbody>
</table>

The annual financial statements set out on pages 56 to 67 were approved and
signed by me in my capacity as Commissioner for SARS on 30 August 2000.

Pravin J Gordhan
Commissioner for SARS
PRETORIA, 30/08/2000
11.1 REPORT OF THE AUDITOR-GENERAL

THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2000

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      2.3.1 Financial audit
      (a) Cash basis of accounting
      (b) Accrual basis of accounting
      2.3.2 Compliance audit
      (a) Tax administration
      (b) Computer audit
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      2.4.1 Disclaimer of financial audit opinion
      2.4.2 Compliance audit

3. EMPHASIS OF MATTER
   3.1 Interest on overpayment of provisional tax payments
   3.2 Waiving of interest and penalties
   3.3 Securities
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4. APPRECIATION
1. AUDIT ASSIGNMENT

The financial statements as set out on pages 56 to 67, for the year ended 31 March 2000, 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 officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Introduction

The South African Revenue Service changed its basis of accounting with effect from the year ended 31 March 1998 to comply with generally accepted accounting practice (GAAP) in terms of Section 29(3)(a) of the SARS Act.

There are no definitive applicable GAAP rules either locally or internationally with regard to matters such as revenue recognition for a state revenue collection agency. The Commissioner has advised that SARS will comply progressively with GAAP as the relevant standards are developed. SARS has in the meantime developed accounting policies that satisfy the overall guidance with regard, inter alia, to the accrual of income, assets and liabilities.

To support these disclosures the underlying core (tax) systems need further adjustment and upgrading. The current shortcomings in the systems raised audit concerns both from a financial and compliance perspective that are set out in paragraph 2.3.1 (b) hereunder.

The Commissioner has indicated that active steps are being taken to address this, which include the following:

• The implementation of the Public Finance Management Act (PFMA) according to a structured implementation plan.
• A project for the identification and clearance of historical differences between the core systems and the accounting records and implementation of controls to avoid recurrence.
• Appointment of specialists in various areas of operations to specifically address issues highlighted in this report.
• Implementation of the debt management system by October 2000.
• Implementation of the revenue accounting system by April 2001 with subsequent integration to the core tax systems.
• Restructure of the top 10 branch offices and align them with new business requirements that include audit, collections and service improvements.
• Transformation of SARS to a process driven organisation with effective and transparent systems.

I believe that improved disclosure, accompanied by stable accounting systems will benefit both SARS and the users of the information and look forward to monitoring the progress made in this regard in the future.

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

2.2 Nature and scope

2.2.1 Financial audit
The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed 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.

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

2.2.2 Compliance audit
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 and the collection of taxation. I believe that the audit provides a reasonable basis for my opinion.

2.3 Qualification

2.3.1 Financial audit
In order to recognise the difficulties experienced by SARS arising from the requirement to comply with GAAP this section of the report has been categorised into two sections viz. Cash and Accrual basis of accounting. It distinguishes those matters that would be reported irrespective of the accounting basis used, some of which have been longstanding, from those that result from the GAAP requirement.
(a) Cash basis of accounting

(i) Reconciliations

(1) The requirements of section 22 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) have not been totally adhered to as proper books and records were not fully maintained. These records which are prepared on a cash basis have demonstrated shortcomings, examples of which are incomplete and inadequate record keeping in respect of customs and excise debtors and the lack of proper reconciliations between the cash accounting records and the cash collections on the core systems.

As a result there was an unexplained difference of R417 million in net collections between the income tax system (IT) and the cash accounting records where the accounting records reflected R417 million less than the IT system. In respect of the previous financial period the accounting records reflected R413 million greater net collections than the IT system.

SARS has already implemented an action plan to ensure that cash collections on the core systems reconcile with the cash accounting records.

(2) The amount reflected on the bank reconciliation in respect of outstanding data cheques (income tax refunds) could not be verified, as a complete listing could not be provided.

(3) Outstanding debits and credits on the bank reconciliation were not timeously resolved.

(ii) Income tax refunds

A complete listing of the details of refunds made to taxpayers could not be provided.

(iii) Exceptions generated by NITS

The new income tax system (NITS), which was partially implemented in December 1999, facilitates the capturing and assessment of returns on a face value basis. It is estimated that approximately 80% of assessments are issued without any human intervention. Therefore, the emphasis has shifted towards auditing returns after assessments have been raised. As a result of the automation of the assessment process, it is envisaged that approximately 70% of the current assessors within SARS will be utilised in processes such as auditing.

While the benefit of the reduced processing time of assessments is recognised, it may have a significant impact on the capacity of the
branch office to perform audits of the required quality. At the time of carrying out our tests a large number of these assessments had not yet been audited by the respective branch offices. In instances where the audits had been completed, deductions were not accompanied by the required supporting schedules, which could raise uncertainty on the completeness and accuracy of income tax levied.

The Commissioner has indicated that a manual risk profiling system is now being put in place to scan returns and allocate cases for audit and an automated version is being developed.

(iv) **Interest on outstanding STC debtors**

Prior to the implementation of NITS, interest on STC debtors had been incorrectly calculated. Interest on overdue STC balances has not been calculated since the introduction of NITS in December 1999. The STC module is still in the process of development and is due for completion by the end of December 2000.

(v) **Interest on outstanding customs and excise debtors**

Interest on outstanding debts is raised manually. Incorrect rates were used, while in certain cases interest was not raised at all. The Commissioner indicated that the new debt management system due for implementation in October 2000 would alleviate this problem.

(b) **Accrual basis of accounting**

(i) **Customs and excise debtors**

Certain offices did not provide detailed listings of outstanding amounts in respect of customs and excise duties, fuel levies and dishonoured cheques. As a result there is doubt whether receivables in respect of customs and excise and fuel levy reflected in the annual financial statements are complete. The Commissioner has advised that the current programme of getting the basics right (including the appointment of suitably qualified management and general staff, and the re-institution of general office inspections) and the implementation of a significantly improved debt management system mentioned in paragraph 2.3.1 (a)(v) above, will resolve this problem.

(ii) **STC debtors and creditors**

As mentioned in the paragraph 2.3.1(a)(iv) the STC module is still in the process of development. Consequently, STC debtors and creditors could not be identified at 31 March 2000.

(iii) **PAYE and VAT accruals**

Accruals for PAYE and VAT are in respect of returns and assessments received on or after 1 April 2000 for previous tax periods. This is impacted
by payments received prior to 1 April 2000 in respect of the said returns and assessments.

Accruals were not adjusted for payments received before 1 April 2000, which could not be linked to returns or assessments received or issued on or after 1 April 2000.

(iv) Tax on retirement funds
Accurate detailed listings substantiating amounts included in the financial statements in respect of tax on retirement funds creditors amounting to R915 million and debtors accruals could not be provided.

2.3.2 Compliance audit

(a) Tax administration
SARS is charged with the administration and collection of taxation and is directed by a considerable volume of complex legislation. Not only is SARS required to achieve its mandate within the ambit of this legislation, but it should also enforce those measures necessary to ensure that taxpayers comply with tax legislation, whether voluntarily or otherwise. My audit revealed certain shortcomings in internal control and inconsistencies in complying with legislation. It is not possible to quantify the financial effect of the non-compliance and lack of controls due to the diversity thereof as well as a lack of information.

(b) Computer audit
The following computer audits were completed during the period February 2000 to August 2000 and possible areas for improvement were in each instance brought to the attention of the Commissioner. In his comments, the Commissioner referred to various corrective steps, the effectiveness of which will be evaluated in due course.

(i) Follow-up computer audit of the general controls within the Value-Added Tax, Pay-As-You-Earn and New Income Tax Systems
The key findings arising from the audit indicated that although some controls were in place, adequate general control measures had not been implemented throughout (23 of the 42 weaknesses previously identified had been adequately addressed). Various weaknesses with regard to organisational structure and operating procedures, logical and physical access, programmers’ access to the production environment, segregation of duties between programmers and database administrators and program change control were identified. Furthermore, an updated information system inventory was still not in place, as equipment to the value of approximately R18 million was not included.
(ii) Follow-up computer audit of the application controls within the Pay-As-You-Earn System
The key findings arising from the audit indicated that although good progress had been made to address weaknesses previously identified (25 of the 31 weaknesses previously identified had been adequately addressed), adequate application control measures had still not been implemented throughout. The most significant control weaknesses identified related to journals that were still not reviewed or authorised timeously and inadequate logical access controls.

(iii) Follow-up computer audit of the general controls within the Customs Automated Processing of Entries System
The key findings arising from the audit indicated that adequate general control measures had still not been implemented throughout (14 of the 36 weaknesses previously identified had been adequately addressed). Various weaknesses with regard to policies, procedures and standards, logical security and program change control were identified. The Commissioner advised that the new Cargo Management System, scheduled for implementation in the next eighteen months, also involves a comprehensive review of the system and the elimination of shortcomings.

(iv) Computer audit of the application controls within the Passenger System
The key findings arising from the audit indicated that, in general, adequate computerised controls existed. However, user controls within the system were found to be inadequate and open to abuse. The most significant weaknesses related to updated exchange rates not always being used when assessing passengers, shared passwords, users’ access to functions not necessary to perform their duties and a lack of formal user registration procedures.

2.4 Audit opinion
2.4.1 Disclaimer of financial audit opinion
Because of the significance of the matters referred to in paragraph 2.3.1, I am not able to express an opinion on the financial statements.

2.4.2 Compliance audit
Based on the audit work performed, except for the matters included in paragraph 2.3.2, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters and taxation, has occurred.
3. EMPHASIS OF MATTER

Attention is drawn to the following matters:

3.1 Interest on overpayment of provisional tax payments
The Tax on Retirement Funds Act, 1996 (Act No. 38 of 1996) does not make provision for the payment of interest on the overpayment of provisional tax by taxpayers. The Commissioner has indicated that National Treasury has as a priority project for their policy section, the harmonisation of the act with the Income Tax Act, 1962 (Act No. 58 of 1962).

3.2 Waiving of interest and penalties
Although the Commissioner can at his discretion waive interest and penalties based on fully motivated reasons, it is submitted that interest should not be waived where the funds rightfully belong to SARS, as the taxpayer had use of the funds in the interim period.

3.3 Securities
Confirmations received from financial institutions indicated that various bonds held by SARS appear to be invalid.

3.4 Performance audit
Performance audits on value-added tax and customs duty were concluded at the South African Revenue Service during the year under review. The findings of these performance audits are included in the Report of the Auditor-General on Performance Audits completed at the South African Revenue Service during 1999 (RP 96/2000).

3.5 Annual report
The audit of the annual financial statements of SARS Administered Revenue was completed on 29 September 2000. It is a requirement of section 29(2) of the SARS Act that this report be included in the annual report of the Commissioner, the final version of which was submitted to me on 19 December 2000.

4. APPRECIATION

The assistance rendered by SARS during the audit is sincerely appreciated.

S A FAKIE
Auditor-General
### 11.2 ADMINISTERED REVENUE

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2000**

<table>
<thead>
<tr>
<th>Notes</th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>202,085,978</td>
<td>200,480,955</td>
</tr>
<tr>
<td>Income tax</td>
<td>114,990,135</td>
<td>119,530,967</td>
</tr>
<tr>
<td>Value-added tax/Sales tax</td>
<td>50,271,997</td>
<td>48,772,815</td>
</tr>
<tr>
<td>Fuel levy</td>
<td>15,431,494</td>
<td>13,649,552</td>
</tr>
<tr>
<td>Excise duties</td>
<td>10,287,908</td>
<td>8,567,887</td>
</tr>
<tr>
<td>Customs duties</td>
<td>6,355,375</td>
<td>6,086,285</td>
</tr>
<tr>
<td>Other taxes</td>
<td>4,863,007</td>
<td>4,099,912</td>
</tr>
<tr>
<td>Ordinary levy</td>
<td>12,979</td>
<td>17,405</td>
</tr>
<tr>
<td>Import surcharge</td>
<td>186</td>
<td>4,914</td>
</tr>
<tr>
<td><strong>Non-taxation</strong></td>
<td>7,070,195</td>
<td>5,327,933</td>
</tr>
<tr>
<td>Departmental receipts</td>
<td>5,474,443</td>
<td>5,031,649</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>1,474,249</td>
<td>238,590</td>
</tr>
<tr>
<td>Mining leases and ownership</td>
<td>121,503</td>
<td>57,694</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments in terms of Custom Union Agreements</td>
<td>7,197,298</td>
<td>5,576,715</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td>7,287,506</td>
<td>3,241,187</td>
</tr>
<tr>
<td>Doubtful debts</td>
<td>6,673,862</td>
<td>2,620,686</td>
</tr>
<tr>
<td>Write-off of receivables</td>
<td>597,500</td>
<td>611,498</td>
</tr>
<tr>
<td>Theft and losses</td>
<td>16,144</td>
<td>9,003</td>
</tr>
<tr>
<td><strong>SURPLUS FOR THE YEAR</strong></td>
<td>194,798,472</td>
<td>197,239,768</td>
</tr>
</tbody>
</table>
SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF CHANGE IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2000

ACCUMULATED ADMINISTERED ASSETS

<table>
<thead>
<tr>
<th>Notes</th>
<th>R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Balance at 31 March 1998**

- Net gains and losses not recognised in the statement of financial performance
- Transfer to the National Revenue Fund
- Surplus for the year (as previously recognised)

**Balance at 31 March 1999**

- Correction of fundamental error
- Restated balance at 31 March 1999

**Balance at 31 March 2000**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2000

<table>
<thead>
<tr>
<th>Notes</th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R’000</td>
<td>R’000</td>
</tr>
</tbody>
</table>

**ASSETS**

**Current assets**

- Receivables
- Other assets
- Cash and cash equivalents

**Total Assets**

**NET ASSETS AND LIABILITIES**

**Net Assets**

- Accumulated administered assets

**Current liabilities**

- Taxation refunds due
- Bank
- Other liabilities

**Total Net Assets and Liabilities**
CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Notes</th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td><strong>Cash received from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>205,208,468</td>
<td>189,688,951</td>
</tr>
<tr>
<td>Taxation</td>
<td>200,307,839</td>
<td>184,721,088</td>
</tr>
<tr>
<td>Non - taxation</td>
<td>4,900,629</td>
<td>4,967,863</td>
</tr>
<tr>
<td><strong>Cash transferred</strong></td>
<td>(204,843,290)</td>
<td>(188,600,179)</td>
</tr>
<tr>
<td>Payments in respect of Customs Union Agreements</td>
<td>(7,197,298)</td>
<td>(5,576,715)</td>
</tr>
<tr>
<td>Cash to National Revenue Fund</td>
<td>(197,645,992)</td>
<td>(183,023,464)</td>
</tr>
<tr>
<td><strong>Net cash inflow/(outflow) from operating activities</strong></td>
<td>365,178</td>
<td>1,088,772</td>
</tr>
</tbody>
</table>

Cash and cash equivalents at beginning of period | (186,970) | (1,275,742) |

Cash and cash equivalents at end of period | 178,208 | (186,970) |
1 ACCOUNTING POLICIES

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

1.2 Basis of accounting
The financial statements are required by section 29 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) and is a general purpose financial report. Although SARS is required to comply with GAAP in terms of the SARS Act, there are no definitive norms and standards for compiling these annual financial statements. However, SARS will comply progressively with GAAP as the relevant standards are developed.

These financial statements have been prepared on a going-concern basis and the policies have been applied consistently throughout the period.

1.3 The reporting entity - Own and administered accounts
The reporting activity of SARS has been divided into Administered and Own accounts. Administered accounts, which are the subject of these financial statements, are those assets, liabilities, revenue and expenses which are controlled by the Government and managed by SARS on behalf of the Government.

1.4 The reporting entity - Items brought to account
Those assets and liabilities, revenues and expenses that are controlled by SARS have been brought to account as administered items in the Administered Revenue annual financial statements. Revenue and expenses for which SARS acts as a conduit for the National Revenue Fund or the various Provincial Revenue Funds have not been included.

Estimated revenue is not disclosed as part of the annual financial statements because the estimates are prepared in accordance with the cash basis of accounting while the annual financial statements are prepared in accordance with the accrual basis.

1.5 Revenue recognition
1.5.1 Definition of revenue
Revenues and related assets are considered to arise when the Government, through the application of legislation by SARS to taxable
and other relevant activities, gains control of the future economic benefits that flow from taxes and other statutory charges.

1.5.2 Recognition of revenue

The SARS administered revenues of the Government are recognised on the accrual basis when:

- the taxpayer or the taxpayer group can be identified in a reliable manner;
- an amount of tax or other statutory charge is due by the taxpayer or taxpayer group under legislative provisions; and
- the amount of the tax or statutory charge due by the taxpayer or the taxpayer group can be reliably measured, and it is probable that the amount will be collected.

Where the above conditions are met, an amount of tax or statutory charge is recognised as revenue for accrual reporting purposes when, inter alia:

- SARS raises a debt relevant to the reporting period on a taxpayer’s account, via remittance received, assessment or reliable estimation process; or
- a taxpayer notifies SARS of a self-assessed debt relevant to the reporting period, which SARS then raises on the taxpayer account; or
- a reliable estimate of taxes, due by registered taxpayers, can be made, but debits have not been raised on individual taxpayers accounts.

The amount of revenue recognised takes account of legislative steps, discretions to be exercised and any refunds and/or credit amendments to which taxpayers may become entitled. Subsequent write-offs are treated as an expense.

The conditions and recognition events essentially mean that the majority of revenue is recognised either when the debt is raised on a taxpayer account, or when a reliable estimate of future assessments, relevant to the reporting period can be determined, and not when payments are received.

South Africa is the administrator of the Southern African Customs Union Agreements. All revenue in respect of the Common Customs Union is, therefore, included as revenue in the statement of financial performance, while the payments to the other member countries are disclosed separately.

Where revenue is recognised under these principles, but not paid, it is included in receivables.
1.5.3 **Application of the revenue recognition policy for the principal revenue lines is as follows:**

**Income tax**
- **PAYE**: the period in respect of which a return is due by a registered employer
- **Provisional tax**: the period in respect of which a provisional tax return is due by a registered taxpayer
- **Assessed tax**: when raised
- **Additional tax**: when raised
- **Penalties**: when raised
- **Interest**: when raised

**Value-added tax**
- **Value-added tax**:
  - The period in respect of which a return is due by a registered vendor
- **Including bi-monthly returns**
- **Penalties**: when raised
- **Interest**: when raised

**Marketable securities tax**
- **Marketable securities tax**:
  - the period in respect of which a MST return is due by a registered stockbroker

**Stamp duties and fees**
- **Stamp duties and fees**:
  - the period in respect of which a return is due by an agent or on the sale of stamps

**Transfer duty**
- **Transfer duty**: on transfer of property

**Customs duty**
- **Customs duty**:
  - when raised in South Africa or received in the Common Customs Pool

**Excise duty**
- **Excise duty**:
  - when raised in South Africa or received in the Common Customs Pool

**Fuel levy**
- **Fuel levy**:
  - the period in respect of which a return is due by an agent

1.6 **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.
1.7 Receivables
The basis for recognition of receivables is set out under 1.5 (1.5.2) above - ‘Recognition of revenue’

1.8 Reductions in receivables
Provisions to reduce gross receivables are raised for any doubtful debts and any probable credit amendments based on a review of outstanding accounts as at year end, involving examinations of large debts and disputed amounts and having regard to historic collection patterns.

Actual amounts of write-off of bad debt are charged to expenses, as is the movement in the provision for doubtful debt.

1.9 Cash and cash equivalents
Cash includes unbanked cash on hand, cash advances 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 the central government are cleared to the central government on a daily basis.

1.10 Liabilities in respect of provisional payments
No general provision is made in the financial statements for the liability arising from provisional payments that might be refundable to taxpayers.

Due to the nature of provisional payments, liabilities in respect of income tax that might be refundable to taxpayers can only be established on assessment, which takes place well into the next financial year.

SARS is of the opinion that to raise a general provision would not be representative of the position at the accounting date.
SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000

2. Income tax

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persons and individuals</td>
<td>114,990,135</td>
<td>119,530,967</td>
</tr>
<tr>
<td>Companies</td>
<td>88,148,134</td>
<td>87,575,648</td>
</tr>
<tr>
<td>Tax on retirement fund industry</td>
<td>17,216,495</td>
<td>23,191,624</td>
</tr>
<tr>
<td>Secondary tax on companies</td>
<td>5,546,776</td>
<td>5,098,877</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>2,639,184</td>
<td>1,941,613</td>
</tr>
<tr>
<td></td>
<td>1,439,546</td>
<td>1,723,205</td>
</tr>
</tbody>
</table>

3. Value-added tax/Sales tax

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax</td>
<td>50,271,997</td>
<td>48,772,815</td>
</tr>
<tr>
<td>Sales tax</td>
<td>(1,759)</td>
<td>(10,507)</td>
</tr>
</tbody>
</table>

4. Other taxes

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer duties</td>
<td>4,863,007</td>
<td>4,099,912</td>
</tr>
<tr>
<td>Stamp duties and fees</td>
<td>1,824,359</td>
<td>1,565,400</td>
</tr>
<tr>
<td>Marketable securities tax</td>
<td>1,618,647</td>
<td>1,489,783</td>
</tr>
<tr>
<td>Estate duty</td>
<td>1,090,404</td>
<td>721,070</td>
</tr>
<tr>
<td>Donations tax</td>
<td>299,238</td>
<td>311,958</td>
</tr>
<tr>
<td>Levy on financial services</td>
<td>17,189</td>
<td>12,477</td>
</tr>
<tr>
<td>Other</td>
<td>12,980</td>
<td>1,907</td>
</tr>
<tr>
<td></td>
<td>190</td>
<td>(2,683)</td>
</tr>
</tbody>
</table>

5. Departmental receipts

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental activities</td>
<td>5,474,443</td>
<td>5,031,649</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>444,275</td>
<td>79,394</td>
</tr>
<tr>
<td>Recovery of loans and advances</td>
<td>74,088</td>
<td>110,347</td>
</tr>
<tr>
<td>Levies</td>
<td>58,156</td>
<td>262,624</td>
</tr>
</tbody>
</table>

6. Payments in terms of Customs Union Agreements

Contributions to the Common

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Pool</td>
<td>15,998,197</td>
<td>14,573,832</td>
</tr>
<tr>
<td>Botswana</td>
<td>294,076</td>
<td>159,378</td>
</tr>
<tr>
<td>Namibia</td>
<td>289,230</td>
<td>202,885</td>
</tr>
<tr>
<td>Lesotho</td>
<td>84,480</td>
<td>62,965</td>
</tr>
<tr>
<td>Swaziland</td>
<td>43,533</td>
<td>44,487</td>
</tr>
<tr>
<td>Sub-total</td>
<td>711,319</td>
<td>469,715</td>
</tr>
<tr>
<td>South Africa</td>
<td>15,286,878</td>
<td>14,104,117</td>
</tr>
</tbody>
</table>
Received from the Common Customs Pool

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>2,551,972</td>
<td>1,662,284</td>
</tr>
<tr>
<td>Namibia</td>
<td>2,240,743</td>
<td>1,805,222</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1,221,480</td>
<td>1,075,819</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1,183,103</td>
<td>1,033,390</td>
</tr>
<tr>
<td>Sub-total</td>
<td>7,197,298</td>
<td>5,576,715</td>
</tr>
<tr>
<td>South Africa</td>
<td>8,800,899</td>
<td>8,997,117</td>
</tr>
</tbody>
</table>

7. Doubtful debts

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for doubtful debts</td>
<td>6,673,862</td>
<td>2,620,686</td>
</tr>
</tbody>
</table>

8. Write-off of receivables

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax - individuals</td>
<td>81,048</td>
<td>63,824</td>
</tr>
<tr>
<td>Income tax - individuals - accruals for March*</td>
<td>-</td>
<td>28,292</td>
</tr>
<tr>
<td>Income tax - companies</td>
<td>23,335</td>
<td>28,982</td>
</tr>
<tr>
<td>Income tax - companies - accruals for March*</td>
<td>-</td>
<td>4,172</td>
</tr>
<tr>
<td>Value-added tax/Sales tax</td>
<td>362,193</td>
<td>312,391</td>
</tr>
<tr>
<td>Value-added tax/Sales tax - accruals for March*</td>
<td>-</td>
<td>61,781</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>128,238</td>
<td>84,139</td>
</tr>
<tr>
<td>Interest and penalties - accruals for March*</td>
<td>-</td>
<td>27,250</td>
</tr>
<tr>
<td>Excise duties</td>
<td>-</td>
<td>258</td>
</tr>
<tr>
<td>Customs duty</td>
<td>1,934</td>
<td>130</td>
</tr>
<tr>
<td>Other taxes</td>
<td>520</td>
<td>152</td>
</tr>
<tr>
<td>Import surcharge</td>
<td>191</td>
<td>92</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>41</td>
<td>35</td>
</tr>
</tbody>
</table>

* Refer note 19.

9. Fundamental error

Correction of fundamental error in respect of contributions to the Common Customs Pool omitted from revenue and receivables during the 1998-99 financial year

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>199,835</td>
<td>-</td>
</tr>
</tbody>
</table>
### 10. Receivables

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R'000</th>
<th>1998-99 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals - revenue raised</td>
<td>20,365,372</td>
<td>18,252,496</td>
</tr>
<tr>
<td>Individuals - revenue accrued*</td>
<td>6,273,949</td>
<td>5,473,675</td>
</tr>
<tr>
<td>Companies</td>
<td>3,627,208</td>
<td>3,305,836</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>3,232,922</td>
<td>2,554,973</td>
</tr>
<tr>
<td>Retirement Fund Tax*</td>
<td>625,793</td>
<td>-</td>
</tr>
<tr>
<td>Retirement Fund Tax - interest*</td>
<td>6,598</td>
<td>-</td>
</tr>
<tr>
<td>Retirement Fund Tax - penalties*</td>
<td>82,438</td>
<td>-</td>
</tr>
<tr>
<td><strong>Value-added tax</strong></td>
<td>17,181,384</td>
<td>16,046,608</td>
</tr>
<tr>
<td>Value-added tax - revenue raised</td>
<td>7,792,505</td>
<td>7,418,525</td>
</tr>
<tr>
<td>Value-added tax - revenue accrued*</td>
<td>7,725,817</td>
<td>7,009,637</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>2,107,993</td>
<td>1,608,806</td>
</tr>
<tr>
<td>Sales tax</td>
<td>5,069</td>
<td>9,640</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>1,433,000</td>
<td>205,713</td>
</tr>
<tr>
<td>Fuel levy - revenue raised</td>
<td>-</td>
<td>17,545</td>
</tr>
<tr>
<td>Fuel levy - revenue accrued*</td>
<td>1,159,241</td>
<td>-</td>
</tr>
<tr>
<td>Excise duties</td>
<td>986,178</td>
<td>167,634</td>
</tr>
<tr>
<td>Customs duties</td>
<td>529,930</td>
<td>685,339</td>
</tr>
<tr>
<td>Other taxes</td>
<td>164,317</td>
<td>120,848</td>
</tr>
<tr>
<td>Import surcharge</td>
<td>3,974</td>
<td>4,348</td>
</tr>
<tr>
<td>Mining leases</td>
<td>1,443</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41,824,839</td>
<td>35,500,555</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>9,294,548</td>
<td>2,620,686</td>
</tr>
</tbody>
</table>

* Refer note 19.

### 11. Other assets

<table>
<thead>
<tr>
<th></th>
<th>1,123,688</th>
<th>482,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>93,799</td>
<td>9,481</td>
</tr>
<tr>
<td>State departments - revenue raised</td>
<td>548,197</td>
<td>466,467</td>
</tr>
<tr>
<td>State departments - revenue accrued*</td>
<td>473,740</td>
<td>-</td>
</tr>
<tr>
<td>Provincial administrations</td>
<td>7,952</td>
<td>6,852</td>
</tr>
<tr>
<td>Opening balance</td>
<td>6,852</td>
<td>236</td>
</tr>
<tr>
<td>Amounts paid over to provincial administrations</td>
<td>37,350</td>
<td>47,193</td>
</tr>
<tr>
<td>Amounts received on behalf of the provincial administrations</td>
<td>(36,250)</td>
<td>(40,577)</td>
</tr>
<tr>
<td><strong>Regional Services Councils</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amounts received</td>
<td>86</td>
<td>(115)</td>
</tr>
<tr>
<td>Amounts paid</td>
<td>(86)</td>
<td>115</td>
</tr>
</tbody>
</table>

* Refer note 19.
### 12. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paymaster-General</td>
<td>224,511</td>
<td>37,649</td>
</tr>
<tr>
<td>Bank</td>
<td>37,268</td>
<td>(4,728)</td>
</tr>
<tr>
<td><strong>Main control account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Regional offices</td>
<td>34,763</td>
<td>4,354</td>
</tr>
<tr>
<td><strong>Receiver of Revenue</strong> (cash on hand)**</td>
<td>24,292</td>
<td>11,879</td>
</tr>
</tbody>
</table>

**13. Taxation refunds due**

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td>3,175,080</td>
<td>1,864,598</td>
</tr>
<tr>
<td>Persons and individuals</td>
<td>1,928,143</td>
<td>509,936</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>81,629</td>
<td>(59,786)</td>
</tr>
<tr>
<td>Retirement Fund Tax*</td>
<td>915,231</td>
<td>-</td>
</tr>
<tr>
<td><strong>Value-added tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value-added tax - refunds raised</td>
<td>1,984,346</td>
<td>2,337,191</td>
</tr>
<tr>
<td>Value-added tax - refunds accrued*</td>
<td>3,123,068</td>
<td>3,114,718</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>(17,137)</td>
<td>(13,027)</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td>137,183</td>
<td>101,900</td>
</tr>
<tr>
<td>Customs duties</td>
<td>8,951</td>
<td>-</td>
</tr>
<tr>
<td>Excise duties</td>
<td>1,036</td>
<td>-</td>
</tr>
</tbody>
</table>

* * Refer note 19. *

**14. Other liabilities**

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other</strong></td>
<td>25,612</td>
<td>3,604</td>
</tr>
</tbody>
</table>

**15. Reconciliation of surplus for the year to total cash received**

<table>
<thead>
<tr>
<th></th>
<th>1999-00 R’000</th>
<th>1998-99 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Surplus for the year</strong></td>
<td>194,798,472</td>
<td>197,239,768</td>
</tr>
<tr>
<td>Adjusted for Payments in terms of Customs Union Agreements</td>
<td>7,197,298</td>
<td>5,576,715</td>
</tr>
<tr>
<td>Increase/(Decrease) in taxation refunds due</td>
<td>3,482,000</td>
<td>3,425,798</td>
</tr>
<tr>
<td>(Increase)/Decrease in receivables</td>
<td>349,578</td>
<td>(16,483,555)</td>
</tr>
<tr>
<td>Increase/(Decrease) in other liabilities</td>
<td>22,008</td>
<td>(10,235)</td>
</tr>
<tr>
<td>(Increase)/Decrease in other assets</td>
<td>(640,888)</td>
<td>(59,540)</td>
</tr>
<tr>
<td><strong>Total cash received</strong></td>
<td>205,208,468</td>
<td>189,688,951</td>
</tr>
</tbody>
</table>
16. Cash and cash equivalents

<table>
<thead>
<tr>
<th>1999-00</th>
<th>1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>178,208</td>
</tr>
<tr>
<td>Bank</td>
<td>320,834</td>
</tr>
<tr>
<td></td>
<td>(142,626)</td>
</tr>
</tbody>
</table>

17. Sureties

(i) Lien - Sanlam shares
7 405 430 Sanlam shares with a market value of R61 539 124 are held in respect of amounts owing by 9 287 taxpayers as at 31 March 2000.

(ii) Lien - Old Mutual shares
6 530 800 Old Mutual shares with a market value of R100 900 860 are held in respect of amounts owing by 8 356 taxpayers as at 31 March 2000.

(iii) Guarantees
Guarantees issued by financial institutions in favour of SARS amounting to R2 059 738 282 are held as security for various taxes and duties payable.

18. Audit fees

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

19. Ongoing reporting improvements

Ongoing improvements to the reporting of financial information are being made as and when the South African Revenue Service systems are upgraded to supply this information. This results in the prior period figures not being entirely comparable. The effect of these improvements can be seen in notes 8, 10, 11 and 13.

20. Contingent liabilities

Duty Credit Certificate permits are earned on exports made by the importer for which a Duty Credit Certificate permit is issued based on certain percentages of export made which then the Duty Credit Certificates may be utilised for importation of textile materials on which the Customs duty is then rebated. The outstanding balance of R88 million represents Customs Duty not yet claimed by means of the Duty Credit Certificates.

No amount was available for Import Rebate Credit Certificates in respect of the Motor Industry Development Program due to the system not being able to produce a reliable figure at year-end.
12. FINANCIAL STATEMENTS - OWN ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2000

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<th>Page</th>
</tr>
</thead>
<tbody>
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<td>Report of Independent Auditors</td>
</tr>
<tr>
<td>Income statement for the year ended 31 March 2000.</td>
</tr>
<tr>
<td>Statement of changes in capital and reserves for the year ended 31 March 2000.</td>
</tr>
<tr>
<td>Balance sheet as at 31 March 2000.</td>
</tr>
<tr>
<td>Cash flow statement for the year ended 31 March 2000.</td>
</tr>
<tr>
<td>Notes to the annual financial statements.</td>
</tr>
</tbody>
</table>

The annual financial statements set out on pages 73 to 85 were approved and signed by me in my capacity as Commissioner for SARS on 23 November 2000.

Pravin J Gordhan
Commissioner for SARS
PRETORIA, 23/11/2000
12.1 REPORT OF THE AUDITOR-GENERAL

THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000

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   2.1 Nature and scope
      2.1.1 Financial audit
      2.1.2 Compliance audit
   2.2 Qualification
      2.2.1 Financial audit
         (a) Scope limitations: Fixed assets
         (b) Expenditure
         (c) Internal control
      2.2.2 Compliance audit
         (b) Unauthorised expenditure: R6 211 000
         (c) Value-added tax
   2.3 Audit opinion
      2.3.1 Disclaimer of financial audit opinion
      2.3.2 Compliance audit

3. APPRECIATION
1. AUDIT ASSIGNMENT

The financial statements as set out on pages 73 to 85, for the year ended 31 March 2000, 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 officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Nature and scope

2.1.1 Financial audit

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed 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.

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

2.1.2 Compliance audit

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.

2.2 Qualification

2.2.1 Financial audit

(a) Scope limitations: Fixed assets

The scope of the audit work was limited, because it was not possible to verify the total value of acquisitions and existence of assets. This limitation also impacted on the amounts related to fixed assets which are included in the income statement. Consequently, I did not obtain all the information or explanations considered necessary to satisfy myself as to the reasonable presentation of the financial information. Expenditure on in-house developed software that has an enduring value for SARS has not been capitalised due to the inability of the accounting system and records to accurately identify expenditure incurred in the development
of this software and the shortcomings in the internal controls referred to in paragraph 2.2.1(c). The Commissioner has indicated in note 8 to the annual financial statements that a comprehensive fixed asset management project to address these issues has been initiated. The project is expected to be completed by January 2001.

(b) Expenditure
As a result of the extent and nature of the transactions, set out in note 9 of the annual financial statements, that have been transferred to the suspense account and subsequently provided for in the income statement, I was not able to express an opinion as to whether the financial results fairly reflect the results of the operations for the year under review.

There is also uncertainty regarding the extent to which the reconciling items and the R46 million difference on the bank reconciliation roll-back, will impact on the suspense account and the results of operations of the financial years ending 31 March 2000 and 31 March 2001.

(c) Internal control
In addition to the matter referred to in 2.2.1(b) the following shortcomings which are indicative of a serious breakdown of financial and internal control systems were also brought to the attention of the accounting officer:

• Source documents totalling at least R18 million could not be made available for audit purposes after a reasonable period of time was allowed. This may result in the misstatement of financial information.
• Personnel had not received adequate training in the accounting software in use, which compromised the accurate capturing and allocation of financial data on the accounting system.
• The nature and level of skills other than management skills required in the Finance department had not been fully addressed.
• The organisation structure did not support a sound internal control environment, as there were several changes in key financial management positions during the year under review and changes in assigned duties.
• Timely accurate management reports were not always available.
• Control activities regarding fixed assets, bank and cash balances, trade creditors and personnel expenditure were compromised to the extent that regular monitoring was not possible.

These shortcomings have the effect that the provisions of section 22(a) of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) have not been met.

The Commissioner has subsequently begun to address these issues by way of a structured action plan. He has indicated that to date:

• The significant data integrity issues have been resolved;
• For the first time, proper reconciliations have been prepared as at
31 March 2000 for major suppliers;
• For the first time a proper bank reconciliation has been prepared as at July 2000 and rolled back to 31 March 2000;
• Financial policies and procedures are being formulated and documented. Formal implementation will commence as each module has been developed and approved;
• Staff have been provided with on-the-job training where feasible and will receive additional formal training i.e. through workshops; and
• Consultants are providing assistance in the development of an efficient Head Office Finance Division personnel structure.

2.2.2 Compliance audit

(a) Unauthorised expenditure: R6 211 000
Expenditure that must be regarded as unauthorised expenditure, in terms of section 33(1)(d) of the Exchequer Act, 1975 (Act No. 66 of 1975), was incurred during the period under review. The amount was spent without prior approval and the South African Revenue Service Tender Board was not prepared to condone the expenditure. In accordance with the classifications of the Public Finance Management Act, 1996 (Act No. 1 of 1996) this expenditure would have been classified as irregular.

(b) Value-added tax
The requirements of sections 55 and 17 of the Value-added Tax Act, 1991 (Act No. 89 of 1991) were contravened due to the fact that certain source documents to verify the input claim could not be provided and Input VAT was claimed on some motor cars.

2.3 Audit opinion

2.3.1 Disclaimer of financial audit opinion
Because of the significance of the matters referred to in paragraph 2.2.1, I am not able to express an opinion on the financial statements.

2.3.2 Compliance audit
Based on the audit work performed, except for the matters included in paragraph 2.2.2, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

3. APPRECIATION

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

SAFAKIE
Auditor-General
### OWN ACCOUNTS

**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS**

**INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2000**

<table>
<thead>
<tr>
<th>Notes</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R’000</td>
<td>R’000</td>
</tr>
</tbody>
</table>

**REVENUE**

<table>
<thead>
<tr>
<th></th>
<th>1,793,417</th>
<th>1,827,381</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant received</td>
<td>1,787,118</td>
<td>1,820,596</td>
</tr>
<tr>
<td>Interest received</td>
<td>3,660</td>
<td>4,132</td>
</tr>
<tr>
<td>Other revenue</td>
<td>2,639</td>
<td>2,653</td>
</tr>
</tbody>
</table>

**EXPENSES**

<table>
<thead>
<tr>
<th></th>
<th>1,906,308</th>
<th>1,663,213</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenditure</td>
<td>316,798</td>
<td>185,119</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>85,473</td>
<td>52,415</td>
</tr>
<tr>
<td>Finance charges</td>
<td>2,721</td>
<td>760</td>
</tr>
<tr>
<td>Miscellaneous expenditure</td>
<td>2,573</td>
<td>10,543</td>
</tr>
<tr>
<td>Personnel expenditure</td>
<td>1,177,726</td>
<td>1,212,502</td>
</tr>
<tr>
<td>Professional and special services</td>
<td>266,148</td>
<td>191,672</td>
</tr>
<tr>
<td>Research and development costs written off</td>
<td>-</td>
<td>10,202</td>
</tr>
<tr>
<td>Provision raised for unidentified items</td>
<td>54,869</td>
<td>-</td>
</tr>
</tbody>
</table>

**Net (deficit) surplus for the year**

|                      | (112,891)     | 164,168       |
## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES FOR THE YEAR ENDED 31 MARCH 2000**

<table>
<thead>
<tr>
<th></th>
<th>Asset revaluation reserve R'000</th>
<th>Capital reserve on establishment R'000</th>
<th>Accumulated surplus (deficit) R'000</th>
<th>Total R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 March 1998</strong></td>
<td>48,639</td>
<td>-</td>
<td>(28,165)</td>
<td>20,474</td>
</tr>
<tr>
<td>(Surplus of assets over liabilities transferred from Government on 1 October 1997)</td>
<td>-</td>
<td>32,364</td>
<td></td>
<td>32,364</td>
</tr>
<tr>
<td>Revaluation decrease</td>
<td>(337)</td>
<td>-</td>
<td></td>
<td>(337)</td>
</tr>
<tr>
<td>Net surplus for the year</td>
<td>-</td>
<td>-</td>
<td>164,168</td>
<td>164,168</td>
</tr>
<tr>
<td><strong>Balance at 31 March 1999</strong></td>
<td>48,302</td>
<td>32,364</td>
<td>136,003</td>
<td>216,669</td>
</tr>
<tr>
<td>Net deficit for the year</td>
<td>-</td>
<td>-</td>
<td>(112,891)</td>
<td>(112,891)</td>
</tr>
<tr>
<td><strong>Balance at 31 March 2000</strong></td>
<td>48,302</td>
<td>32,364</td>
<td>23,112</td>
<td>103,778</td>
</tr>
</tbody>
</table>
### SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
### BALANCE SHEET AS AT 31 MARCH 2000

<table>
<thead>
<tr>
<th>Notes</th>
<th>2000 R'000</th>
<th>1999 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>8</td>
<td>188,262</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>183,159</td>
<td>412,942</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>2,563</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>9</td>
<td>179,337</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3,822</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>371,421</td>
<td>637,714</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAPITAL RESERVES AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>103,778</td>
<td>216,669</td>
</tr>
<tr>
<td>Asset revaluation reserve</td>
<td>48,302</td>
<td>48,302</td>
</tr>
<tr>
<td>Capital reserve on establishment</td>
<td>32,364</td>
<td>32,364</td>
</tr>
<tr>
<td>Accumulated surplus</td>
<td>23,112</td>
<td>136,003</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>267,643</td>
<td>421,045</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>10</td>
<td>267,643</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>-</td>
<td>5,112</td>
</tr>
<tr>
<td><strong>Total capital, reserves and liabilities</strong></td>
<td>371,421</td>
<td>637,714</td>
</tr>
</tbody>
</table>
SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2000

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (deficit) surplus for the year</td>
<td>(112,891)</td>
<td>164,168</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>85,473</td>
<td>52,415</td>
</tr>
<tr>
<td>Interest received</td>
<td>(3,660)</td>
<td>(4,132)</td>
</tr>
<tr>
<td>Finance charges</td>
<td>2,721</td>
<td>760</td>
</tr>
<tr>
<td><strong>Operating (deficit) surplus before working capital changes</strong></td>
<td>(28,357)</td>
<td>213,211</td>
</tr>
<tr>
<td>Working capital changes</td>
<td>85,315</td>
<td>(5,431)</td>
</tr>
<tr>
<td>Decrease (Increase) in accounts receivable</td>
<td>231,042</td>
<td>(229,264)</td>
</tr>
<tr>
<td>Decrease (Increase) in inventories</td>
<td>2,563</td>
<td>(1,323)</td>
</tr>
<tr>
<td>(Decrease) Increase in accounts payable</td>
<td>(148,290)</td>
<td>187,118</td>
</tr>
<tr>
<td>Funds surrendered to Department of Finance</td>
<td>-</td>
<td>38,038</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>56,958</td>
<td>207,780</td>
</tr>
<tr>
<td>Interest received</td>
<td>3,660</td>
<td>4,132</td>
</tr>
<tr>
<td>Finance charges</td>
<td>(2,721)</td>
<td>(760)</td>
</tr>
<tr>
<td>Surrender of surplus funds</td>
<td>-</td>
<td>(22,446)</td>
</tr>
<tr>
<td>Surrender of unauthorised expenditure</td>
<td>-</td>
<td>(15,592)</td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td>57,897</td>
<td>173,114</td>
</tr>
<tr>
<td><strong>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(48,963)</td>
<td>(193,956)</td>
</tr>
<tr>
<td><strong>NET CASH OUTFLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in capital and reserves</td>
<td>-</td>
<td>(337)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash and cash equivalents</strong></td>
<td>8,934</td>
<td>(21,179)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>(5,112)</td>
<td>16,067</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>3,822</td>
<td>(5,112)</td>
</tr>
</tbody>
</table>
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 under the historical cost convention, as modified for the revaluation of property, plant and equipment. The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice, except for research and development costs as referred to in note 2.7. The principal accounting policies are set out below and are consistent with previous years. The presentation of the annual financial statements for the current and prior periods has been modified in order to comply with the requirements of AC 101 (Revised) - Presentation of financial statements.

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.

Uncommitted funds are surrendered to the National Revenue Fund in terms of section 27 of the Act. 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 Retirement benefit plans
Current contributions on behalf of employees to the Government Employees Pension Fund, which is a defined benefit plan, are expensed. No provision is made for pension-related post-retirement benefits for employees as this is the responsibility of the Government. Refer to note 13 for details regarding the actuarial valuation method used to determine the fund’s financial health.

2.5 Property, plant and equipment
2.5.1 Property, plant and equipment acquired on 1 October 1997 from Government are stated at valuation as at 31 March 1998. Subsequent additions to furniture, fittings, office equipment, software and security equipment are capitalised at cost. The transferred assets were valued on the following basis:
2.5.1.1 Motor vehicles were valued at the trade value of each vehicle per the Auto Dealers Guide for March 1998;
2.5.1.2 Furniture and fittings and office equipment were counted at 31 March 1998, and valued at R1 per item counted. Assets purchased after 1 October 1997 were capitalised at cost.

2.5.2 The surplus or deficit arising on the revaluation of assets, was transferred to the asset revaluation reserve, which is regarded as capital. On disposal of an asset, any applicable portion of the surplus or deficit is transferred from this reserve.

2.5.3 From 1 April 1998, depreciation is charged to write off the cost of property, plant and equipment over their useful lives, using the straight line method, on the following basis:
- Furniture and fittings: 10 years
- In-house developed software: 5 years
- Mainframe computers: 5 years
- Motor vehicles: 5 years
- Office and security equipment: 5 years
- Personal computers and printers: 3 years
- Proprietary software: 2 years

2.6 Inventories
Inventories comprise consumable stores and are valued at the lower of the weighted average cost or estimated net realisable value. Provision is made for obsolete items.

2.7 Research and development
Research and development costs are recognised as an expense in the period in which they are incurred. Expenditure on development is charged to income in the year in which it is incurred, except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future operational activity. 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 5 years.

Due to the lack of distinction between research and development costs for this year, SARS was unable to quantify the value of in-house development software to be capitalised in terms of AC122 of Statements of Generally Accepted Accounting Practice and all costs were written off.

2.8 Financial assets and liabilities

Financial assets
SARS’s principal financial assets are cash and cash equivalents, which comprise of 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.

3. GRANT RECEIVED

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grant received</td>
<td>2,032,262</td>
<td>1,519,174</td>
</tr>
<tr>
<td>Accrued in 1999 in respect of incentive bonuses</td>
<td>(301,422)</td>
<td>301,422</td>
</tr>
<tr>
<td>Accrued in 2000 in respect of incentive bonuses</td>
<td>56,278</td>
<td>-</td>
</tr>
</tbody>
</table>

1,787,118 1,820,596

4. PROFESSIONAL AND SPECIAL SERVICES

Professional and special services of R266 148 000 (1999: R191 672 000) include costs for audit services provided by the Auditor-General.

11,605 15,204

5. UNAUTHORISED EXPENDITURE

The following amounts, included in the annual financial statements, constitute unauthorised expenditure in terms of section 33 of the Exchequer Act (Act No. 66 of1975).
<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Appointment of consultants</td>
<td>2,743</td>
<td></td>
</tr>
<tr>
<td>b) Appointment of consulting firm - Lee Morall</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>c) Landelani recruitment project</td>
<td>1,879</td>
<td></td>
</tr>
<tr>
<td>d) Income Tax Training - RAU</td>
<td>1,096</td>
<td></td>
</tr>
<tr>
<td>e) Masterskill courseware</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>f) Printing of forms</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>g) Strategic planning project</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>h) Security at SARS, Alberton</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>i) Drug test kits</td>
<td>117</td>
<td></td>
</tr>
<tr>
<td>j) PABX</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>k) Purchase of photocopy paper</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>l) Extension of sanitary contract</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>m) Purchase of stationery</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>o) Property expenditure</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,211</td>
<td>5,496</td>
</tr>
</tbody>
</table>

6. DONATIONS

SARS received the following donated benefits in kind:

a) **US Agency for International Development** 2,445
   Funds utilised for:
   - Study visits and IRS training courses
   - SARS National Management Forum
   - Short term advisors
   - Commercial fraud and white collar crime seminars

b) **USAID** 1,041
   Funds utilised for:
   - Short term advisors/consultants

c) **H M Customs & Excise** 499
   Funds utilised for:
   - Funding of HR consultant

d) **Swedish International Development Agency** 2,500
   Funds utilised for:
   - Short term advisors
   - Licence fees - SESAM & SARAP software
   - Video Projector
   - SESAM audit support system maintenance
   - Study visits

e) **German Foundation for International Development** 317
   Funds utilised for:
   - Study visits
   - Training on audit techniques
f) **French Trade Commission in S.A.**

Funds utilised for:
- Study visit to French Customs training school
- French Customs training expert to SARS
- Customs school expert to SARS

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h) **Australian Agency for International Development**

Funds utilised for:
- CATA Management Development Programme

27

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R'000</td>
<td>R'000</td>
</tr>
<tr>
<td>f)</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>g)</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>h)</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,951</td>
<td>19,565</td>
</tr>
</tbody>
</table>

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.

---

8. **PROPERTY, PLANT AND EQUIPMENT**

A comprehensive fixed asset management project has been initiated to count, value, record and manage all fixed assets, and to identify assets under finance leases. This project will be completed by January 2001, at which time the necessary adjustments to the fixed assets revaluation and related accounts will be effected. As a result, the information below was obtained from the general ledger. The project will also include the identification of operating leases.

Due to the lack of distinction between research and development costs for this year, SARS was unable to quantify the value of in-house development software to be capitalised in terms of AC122 of Statements of Generally Accepted Accounting Practice and all costs were written off.
SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

<table>
<thead>
<tr>
<th>Computer equipment</th>
<th>Computer software</th>
<th>Furniture fittings &amp; office equipment</th>
<th>Security equipment</th>
<th>Motor vehicles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
</tr>
</tbody>
</table>

**For the year ended 31 March 2000**

**At cost or valuation**

Opening balance - 31 March 1999 199,870 20,454 31,999 6 4 24,800 277,187
Additions 35,332 7,398 2,240 924 3,069 48,963
Closing balance - 31 March 2000 235,202 27,852 34,239 988 27,869 326,150

**Accumulated depreciation**

Opening balance - 31 March 1999 41,743 3,409 2,530 8 4 725 52,415
Charge for the year 63,355 12,076 4,670 105 5,267 85,473
Closing balance - 31 March 2000 105,098 15,485 7,200 113 9,992 137,888

**Carrying amount**

- 31 March 2000 130,104 12,367 27,039 875 17,877 188,262

**For the year ended 31 March 1999**

**At cost or valuation**

Opening balance - 31 March 1998 58,316 - 2,450 12 22,453 83,231
Additions 141,554 20,454 29,549 52. 2,347 193,956
Closing balance - 31 March 1999 199,870 20,454 31,999 6 4 24,800 277,187

**Accumulated depreciation**

Charge for the year 41,743 3,409 2,530 8 4 725 52,415
Closing balance - 31 March 1999 41,743 3,409 2,530 8 4 725 52,415

**Carrying amount**

- 31 March 1999 158,127 17,045 29,469 56 20,075 224,772

9. ACCOUNTS RECEIVABLE

<table>
<thead>
<tr>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>R'000</td>
<td>R'000</td>
</tr>
</tbody>
</table>

Staff accounts receivable 5,611 7,238
Less provisions 2,395 -

External accounts receivable 1,508 -
Less provisions 84 -

Suspense account
Unidentified items - 74,786
Bank timing differences 46,868 -
Unsubstantiated items 8,001 -

Less provision 54,869 74,786

82
Certain difficulties in reconciling the general ledger accounts to third party documentation arose as a result of the initial set-up of the general ledger software. In order to address these difficulties and to establish reliable records for future accounting periods a data integrity exercise was undertaken. This involved inter alia:

- reversing all the journal transactions that were posted to control accounts from the inception of the general ledger in October 1997;
- identifying which of those journals were valid transactions and re-instating them, with the other leg of the transaction being posted to the suspense account; and
- clearing and reconciling balance sheet accounts, so that only clearly identifiable assets, liabilities or equity accounts were reflected, the unknown amounts being transferred to the suspense account.

These actions resulted in a net debit balance of R8 million on the suspense account.

A bank reconciliation was performed at 24 July 2000. This reconciliation contained approximately 15 000 reconciling items. In rolling back the reconciliation to 31 March 2000 in order to obtain an accurate bank balance to be reported, a further difference of R46 million between the calculated bank balance and the bank statement balance arose. A significant number of payments were processed by the bank before 31 March 2000, but had only been captured in SARS’s records as payments in the following financial year. This amount of R46 million was reflected in the suspense account at 31 March 2000 and has been added to the net debit balance of R8 million.

When the bank account reconciliation is reperformed from autonomy to 31 March 2000, the reconciling items of R46 million at 31 March 2000 will be separately identifiable. An exercise to achieve this has been mobilised.

The full amount of R54 million has been provided for on the face of the income statement as unidentified amounts.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R’000</td>
<td>R’000</td>
</tr>
<tr>
<td>Government departments</td>
<td>174,368</td>
<td>309,821</td>
</tr>
<tr>
<td>Prepayments</td>
<td>-</td>
<td>18,205</td>
</tr>
<tr>
<td>Refundable deposits</td>
<td>329</td>
<td>329</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174,697</td>
<td>328,355</td>
</tr>
</tbody>
</table>

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000
10. TRADE AND OTHER PAYABLES

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable</td>
<td>38,553</td>
<td>108,556</td>
</tr>
<tr>
<td>Provision for incentive bonus</td>
<td>56,278</td>
<td>301,422</td>
</tr>
<tr>
<td>Provision for leave pay (refer to note 11)</td>
<td>4,581</td>
<td>-</td>
</tr>
<tr>
<td>Accruals for salary related expenses</td>
<td>133,140</td>
<td>-</td>
</tr>
<tr>
<td>Other accruals</td>
<td>32,156</td>
<td>415</td>
</tr>
<tr>
<td>VAT payable</td>
<td>2,935</td>
<td>5,540</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>267,643</strong></td>
<td><strong>415,933</strong></td>
</tr>
</tbody>
</table>

11. CONTINGENT LIABILITIES

Guarantees issued to various financial institutions in respect of housing loans granted to employees

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17,502</td>
<td>15,536</td>
</tr>
<tr>
<td>Accumulated leave prior to 31 December 1998</td>
<td>80,104</td>
<td>80,104</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>97,606</strong></td>
<td><strong>95,640</strong></td>
</tr>
</tbody>
</table>

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 10.

12. CAPITAL COMMITMENTS

Commitments for the acquisition of property, plant and equipment: - contracted for but not provided in the financial statements

|                     | 1,015 | - |

13. RETIREMENT BENEFIT PLANS

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund.

According to rule 4.9 of the fund, the 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 1998.
The results were as follows:

- **Fair value of planned assets**: R156.8 million
- **Funding level**: 96.5%
- **Including pension increments**: 
- **Shortfall**: R5.2 million
- **Including pension increments**: 
- **Actuarial present value of planned assets**: R143.8 million

**Actuarial assumptions:**

1. Reasonable demographic assumptions regarding resignation, mortality, illness, health, and retirement.
2. Financial assumptions regarding future salary increases until retirement, and pension increases after retirement; namely,
   i) A long-term rate of 10% per annum;
   ii) A long-term salary inflation rate of 11% per annum. This is in addition to a promotional scale;
   iii) Pension increases are provided for at a rate of 7.5% per annum; and
   iv) Rate of interest of 14% per annum to discount the assets and liabilities.

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.

**Pension fund contributions**

(included in personnel expenditure)  

| 106,468 | 110,063 |

SARS’ responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made to the pension fund on behalf of its employees.

Approximately 10,890 of the 11,075 SARS employees contribute to this pension fund.

**14. 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.
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13. SARS CONTACT DETAILS

HEAD OFFICE

SARS, Private Bag X923, Pretoria 0001

Lehae La SARS, 299 Bronkhorst Street
Nieuw Muckleneuk, Pretoria 0181

Tel: (012) 422 4000
Fax: (012) 422 6847

EXTERNAL FRAUD HOTLINE NUMBER:
0800 00 28 70

INTERNAL FRAUD HOTLINE NUMBER
0800 00 19 60

WESTERN CAPE AND NORTHERN CAPE

Beaufort West - Receiver of Revenue
Church Street, Private Bag X548, Beaufort West, 6970
Tel (023) 414-32353235  Fax (023) 414-4246

Bellville - Receiver of Revenue
Al West Street, Private Bag X11, Bellville, 7335
Tel (021) 959-9901  Fax (021) 959-9704

Cape Town - Regional office
ABSA Building, 6th Floor
132 Adderley Street, P.O.Box 3926, Cape Town, 8000
Tel (021) 481-6100  Fax (021) 481-6161

Cape Town - Receiver of Revenue
90 Plein street, P.O.Box 657, Cape Town, 8000
Tel (021) 460-2003  Fax (021) 465-4389

Cape Town - Customs and Excise
Customs House, 9 Table Bay Boulevard, Private Bag X9046, Cape Town, 8000, Tel (021) 401-8500  Fax (021) 421-6263

Cape Town International Airport
P.O. Box 3046, Cape Town, 8000, Tel (021) 934-0221  Fax (021) 934-2355

George - Receiver of Revenue
cor. 93 York & St. John Streets, Private Bag X5385, George, 6550, Tel (044) 874-7420  Fax (044) 874-0527

Mossel Bay - Customs and Excise
67A Bland Street, P.O. Box 19, Mossel Bay, 6500
Tel (044) 91-1065  Fax (044) 91-1963

Nakop / Naroegas - Border Post
P.O. Box 3011, Upington, 8400, Tel (054) 311-1850

Outshoorn - Customs and Excise
Alled Building, 4th Floor, Church Street, P.O. Box 359, Outshoorn, 6620, Tel (044) 272-2681  Fax (044) 272-7220

Paarl - Receiver of Revenue
Rhoba Building, 16/23 Martin Street, Private Bag X5004, Paarl, 7622, Tel (021) 872-2183  Fax (021) 872-1862

Paarl - Customs and Excise
Monte Roos Building, 276 Main Street, P.O. Box 41, Paarl, 7622, Tel (021) 872-7954  Fax (021) 872-6626

Robertson - Customs and Excise
No. 9, 8th Avenue, P.O. Box 38, Saldaña Bay, 7395
Tel (022) 818-3720  Fax (022) 818-3720

Stellenbosch - Customs and Excise
Valenda Building, cor. Piet Retief and Skool Streets P.O. Box 41, Steynsbosch, 7599
Tel (021) 877-3036  Fax (021) 877-5927

Stellenbosch - Customs and Excise
Anjeval Building, 1st Floor, Schott Street, P.O. Box 1801, Stellenbosch, 7598

Upington - Customs and Excise
Ancorley Building, 2nd Floor, Schott Street, P.O. Box 1801, Upington, 8400
Tel (054) 351-1210  Fax (054) 352-3551

Vredendal - Customs and Excise
Rhoba Building, 16/23 Martin Street, Private Bag X5004, Vredendal, 6500
Tel (021) 33-009  Fax (021) 33-009

Worcester - Receiver of Revenue
Norfolk Building, 59 Church Street, Private Bag X3685, Worcester, 6850, Tel (023) 342-0552  Fax (023) 347-4547

Worcester - Customs and Excise
New M purplet Building, Adderley Street, P.O. Box 21, Worcester, 6850, Tel (023) 347-2979  Fax (023) 347-5314

GAUTENG

Alberton - Receiver of Revenue
49 New Quay Avenue, P.O. Box 1003, Alberton, 1450
Tel (011) 861-5500  Fax (011) 861-5772

Benoni - Receiver of Revenue
65 Howard Avenue, P.O. Box 141, Benoni, 1500
Tel (011) 421-1701/422-3070  Fax (011) 421-6904

Boksburg - Receiver of Revenue
cor. Leeupoort & Short Streets,P.O. Box 206, Boksburg, 1460
Tel (011) 917-3370  Fax (011) 917-9918

Brakpan - Receiver of Revenue
106 Kings Way Avenue, P.O. Box 40, Brakpan, 1540
Tel (011) 873-2468  Fax (011) 873-3916/8583

Germiston - Receiver of Revenue
Outeniqua Building, cor. Victoria & Plantation Streets, P.O. Box 166, Germiston, 1400
Tel (011) 740-0251  Fax (011) 740-1177

Germiston - Customs and Excise
cor. Myer & Voortrekker Streets, Private Bag X1012, Germiston, 1400, Tel (011) 873-3133  Fax (011) 873-1177

Johannesburg - Regional Office
Momentum Office Park, Ashwood Place, Building no. 16
140 Western Service Road, Woodmead,
Tel (011) 449-5838  Fax: (011) 326-2139

Johannesburg - Receiver of Revenue
New M purplet Building, Adderley Street, P.O. Box 21, Johannesburg, 2000, Tel (011) 314-8659  Fax (011) 836-695

Paarl - Customs and Excise
Monte Rose Building, 276 Main Street, P.O. Box X1012, Paarl, 7599, Tel (021) 872-3036  Fax (021) 877-5927

Robertson - Customs and Excise
48 Church Street, P.O. Box 38, Robertson, 6705
Tel (022) 877-3036  Fax (022) 877-5927

Stellenbosch - Customs and Excise
Valenda Building, cor. Piet Retief and Skool Streets P.O. Box 41, Steynsbosch, 7599
Tel (021) 877-3036  Fax (021) 877-5927

Stellenbosch - Customs and Excise
Anjeval Building, 1st Floor, Schott Street, P.O. Box 1801, Stellenbosch, 7598
Tel (054) 351-1210  Fax (054) 352-3551

Vredendal - Customs and Excise
Rhoba Building, 16/23 Martin Street, Private Bag X5004, Vredendal, 6500
Tel (021) 33-009  Fax (021) 33-009

Worcester - Receiver of Revenue
Norfolk Building, 59 Church Street, Private Bag X3685, Worcester, 6850, Tel (023) 342-0552  Fax (023) 347-4547

Worcester - Customs and Excise
New M purplet Building, Adderley Street, P.O. Box 21, Worcester, 6850, Tel (023) 347-2979  Fax (023) 347-5314