SOUTH AFRICAN REVENUE SERVICE
ANNUAL REPORT

2011 - 2012

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MANDATE

In terms of the South African Revenue Service Act (No. 34 of 1997), SARS is mandated to:

- Collect all revenue due
- Ensure maximum compliance with tax and customs legislation
- Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade

MISSION

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

VISION

SARS is an innovative revenue and customs agency that enhances economic growth and social development, and that supports the country's integration into the global economy in a way that benefits all South Africans.

VALUES

SARS has zero tolerance for corruption. SARS optimises its human and material resources and leverages diversity to deliver quality service to all those engaged in legitimate economic activity in and with South Africa. SARS's organisational relationships, business processes and conduct are based on the following set of values:

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

CORE OUTCOMES

- Increased customs compliance
- Increased tax compliance
- Increased ease and fairness of doing business with SARS
- Increased cost effectiveness, internal efficiency and institutional respectability

ABBREVIATIONS AND ACRONYMS

ACM	Automated Cargo Management
AEO	Authorised Economic Operator
ATAF	African Tax Administration Forum
AVS	Account Verification Service
BCOCC	Border Control Operations Co-ordinating Committee
BLNS	Botswana, Lesotho, Namibia and Swaziland
CAPE	Customs Authorised Processing of Entries
CCA	Common Customs Area
CIT	Corporate Income Tax
CITES	Convention on International Trade in Endangered Species
CMS	Customs Management System
CRE	Customs Risk Engine
CSBD	Centre for Small Business Development
CSR	Corporate Social Responsibility
DDU	Detector Dog Unit
DHA	Department of Home Affairs
DOA	Delegation of Authority
DTI	Department of Trade and Industry
DTCA	Dutch Tax and Customs Administration
EDI	Electronic Data Interchange
FIFA	Federation Internationale de Football Association
GDP	Gross Domestic Product
HR	Human Resources
IACF	Inter Agency Clearing Forum
IBSA	India-Brazil-South Africa
LBC	Large Business Centre
LEAP	Leadership Effectiveness Advanced Programme
LEI	Leadership Effectiveness Index
LLT	Loose Leaf Tariff System
MAS	Manifest Acquittal System
MCS	Movement Control System
MFD	Multi-Functional Device
MGL	Making Great Leaders
MPRR	Mineral and Petroleum Resources Royalty
MTBPS	Medium Term Budget Policy Statement
MTU	Mobile Tax Unit
NGO	Non-Governmental Organisation
POCA	Prevention of Organised Crime Act
OECD	Organisation for Economic Co-operation and Development
ORTIA	OR Tambo International Airport
PAYE	Pay-As-You-Earn
PCA	Post Clearance Audit
PFMA	Public Finance Management Act
PIT	Personal Income Tax
POS	Points of Service
PT	Preferred Trader

ABBREVIATIONS AND ACRONYMS

RAF	Road Accident Fund
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPS	South African Police Service
SCOF	Standing Committee on Finance
SEDA	Small Enterprise Development Agency
SM	Service Manager
SSMO	SARS Service Monitoring Office
STC	Secondary Tax on Companies
TAB	Tax Administration Bill
TMS	Tariff Management System
TOPP	Training Outside Public Practice
TKC	Trans-Kalahari Corridor
UIF	Unemployment Insurance Fund
VAT	Value-Added Tax
WCO	World Customs Organisation

ABOUT THIS REPORT

As part of government's performance monitoring approach, we have chosen to structure this report in alignment with the annual SARS Strategic Plan. Notably, we are reporting on our activities during the year and on progress made in meeting our strategic objectives and performance measures under the four strategic outcomes of the SARS Strategic Plan namely:

- Increased Customs Compliance
- Increased Tax Compliance
- Increased Ease and Fairness in Doing Business with SARS
- Increased Cost Effectiveness, Internal Efficiency and Institutional Respectability

While structuring the report in this way significantly contributes to the reader's assessment of SARS's progress in achieving these key performance outcomes during the financial year in review, not all the programmes, initiatives and activities of SARS can be easily assigned to one or other of the core outcomes. More often, the activities of SARS span all four of these outcomes and have an impact in all these areas. Reporting on all the activities under each section would result in significant duplication and repetition. Instead, we have sought to report on activities in the area of most direct impact.

ABOUT THIS REPORT

PART 1

PERFORMANCE AND ORGANISATIONAL HIGHLIGHTS

Part 1 provides an overview of the key performance and organisational highlights of the 2011/12 year, in relation to the four core outcomes.

PART 2

PERFORMANCE INFORMATION

Part 2 gives an account of SARS's performance against its measures as described in the Strategic Plan of 2011/12.

PART 3

GOVERNANCE, LEGAL AND RISK MANAGEMENT

Part 3 details SARS's governance structure, and outlines SARS's corporate structure as well as governing bodies and forums. It also gives an account of changes in the legal framework and an update on risk management.

PART 4

FINANCIALS

Part 4 gives an account of SARS's financial wellness as at the end of the financial year ended 31 March 2012.

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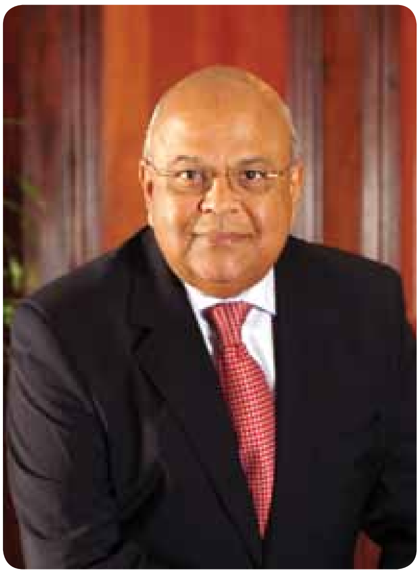


International economic conditions remain unsettled.

While there were tentative signs of an economic revival in the US economy for much of 2011, forecasts for global GDP growth in 2012 expect it to decline to 2.5%.

Continued sovereign risks in European economies and the turmoil over recent months in economies in the Eurozone have effectively annulled the prospects for a global recovery. Annual growth for the Eurozone in 2012 is now expected to contract by 0.3%.

Europe remains South Africa's largest export market. Growth in industrial production in the two economies is strongly correlated.

By June 2012 manufacturing had contracted in almost all of the 17 Eurozone countries despite interest rate cuts and a weaker exchange rate.

For much of 2012 commodity prices have also weakened as a result of the economic slowdown in Europe, the US and China. This will continue to impact negatively on South Africa's own growth forecasts as metals and other raw materials accounted for the largest portion of South Africa's exports for the period under review.

The World Bank expects that while domestic GDP growth showed nascent signs of strengthening during the latter part of 2011, our economy will not maintain this momentum during 2012.

Slower growth was recorded during the first quarter of 2012 and was "underpinned by a sharp decline in mining output, manufacturing, mining and agriculture production remains below pre-crisis 2008 levels, indicating only partial recovery in these sectors," the World Bank observed in its July 2012 Economic Update for South Africa.

It can be anticipated that our growth projections may again have to be re-adjusted downwards from the expected 2.7% in the February 2012 Budget in order to contend with the continued global economic risks and instability.

In the three years since President Jacob Zuma and his administration assumed office, we have had to find ways of maintaining our economy's growth momentum – albeit at reduced rates – in the context of the worst global recession in 70 years.

During these challenging times, which are likely to continue for as much as the next five years, our fiscal policy must continue to be anchored on the principles of counter-cyclicality, sustainability and intergenerational fairness. These principles imply that government will continue to increase public expenditure to stimulate growth, that it will manage its public borrowing and means of income sustainably and that it will not allow future generations to inherit debilitating levels of debt.

In this regard, the collection of tax revenue is a crucial indicator of how successful a country is in stimulating growth, development and investment in its economy; in encouraging its citizens to comply with its laws; and in maintaining an appropriate balance between its fiscal expenditure needs and available income streams.

The ability of a government to intervene during times of economic crises, market contagion or recessions, depends on the strength and depth of its fiscal position – the tax revenues it has, it can or it is expected to generate through revenue collection. For the period under review the South African Revenue Service (SARS) has again demonstrated its ability to support this fiscal sovereignity.

Against a target of R738.7 billion, SARS collected R742.7 billion, which is R3.9 billion more than the Revised Revenue Estimate in the 2012 Budget. At 24.6%, the tax-to-GDP-ratio for 2011/12 remained relatively unchanged from the previous financial year and is still well below the pre-crisis high of 27.6% in 2007/08.

Government's preliminary spending outcome of R968.5 billion for 2011/12 was R4 billion lower than anticipated in the 2012

Budget. The over-collection of revenue for 2011/12 reduced the budget deficit and the final audited deficit figure is expected to be marginally lower than the 2012 Budget Estimate of 4.8% of GDP. SARS's revenue collection performance has firmed up the forecast in the 2012 Budget projections and therefore removes the requirement for additional borrowing.

The main revenue highlights were:

- Total revenue of R742.7 billion represents an increase of R68.5 billion (10.2%) over the previous financial year

- The three main revenue contributors for 2011/12 were:
    - Personal Income Tax (PIT): total collections were R251.3 billion which grew by R23.2 billion (10.3%) year-on-year and were R0.8 billion (0.3%) above the Revised Estimate in the 2012 Budget

    - Corporate Income Tax (CIT): total collections were R153.3 billion which grew by R18.6 billion (13.8%) year-on-year and were R0.5 billion (-0.3%) below the Revised Estimate in the 2012 Budget

    - Value Added Tax (VAT): total VAT collections were R191.5 billion and showed a relatively muted growth of R7.4 billion (4.1%) year-on-year. This performance was R0.2 billion (0.1%) above the Revised Estimate in the 2012 Budget

While most of the other taxes have recovered, Corporate Income Tax (CIT) collections at R153.3 billion – although showing growth of 13.8% year-on-year – remained below the peak of R167.2 billion collected in 2008/09. This slow recovery of CIT in the main accounted for the current the tax-to-GDP ratio which remained flat at 24.6%.

The past three years saw contraction in the construction sector following the 2010 Soccer World Cup as well as declines in the manufacturing sector where production volumes are recovering moderately. The mining, finance as well as wholesale and retail sectors, showed robust growth on the back of a modest economic recovery. During 2011 the South African economy grew by 3.1% and continued to demonstrate resilience in an uncertain global environment.

Although the global crisis is no closer to resolution, buoyant growth in tax revenue in South Africa was driven by the strong performances of import taxes, recovery of corporate profits and resilient consumption.

The strong revenue performance was also borne from a culture of growing tax compliance.

South Africa has done well in growing the tax base and improving compliance. However, the South African economy finds itself in transition where there is a constant migration of individuals from the informal into the formal economy. SARS's compliance strategies have to take this reality into account.

It is worth re-emphasising that almost every one of the estimated population of more than 40 million consumers in South Africa makes a contribution to the fiscus through paying tax – be it through income tax on earnings, capital gains or interest, Value-Added Tax when a child buys a sweet, the fuel levy when we fill up our vehicles or the many other tax instruments designed to ensure we all share the responsibility for our country's future.

It is this shared responsibility that has contributed to our fiscal strength and stability, growing each year as reflected by total revenue collection increasing from R114 billion in 1994/95 to over R742.7 billion in the most recent financial year.

I want to thank all registered taxpayers who paid their fair share tax during the 2011/12 fiscal year.

A special word of thanks to the SARS Commissioner Oupa Magashula, his executive and his management team for the remarkable work that SARS continues to do. I would also like to thank the 15 000 SARS employees for the dedication with which they continue to perform their duties.

Pravin Gordhan

Pravin Gordhan
Minister of Finance

The 2011/12 financial year certainly tells a story! It is a story of how South Africa has been remarkably resilient in weathering the economic storm which continues to rage around us. It tells how we have been able to do this through our government's adoption and careful implementation of a prudent fiscal policy and by the impressive gains we have made in developing a strong culture of compliance amongst taxpayers which secures the revenue our government needs to meet the expectations of our people.

SARS has been cognisant of the global risks that we are still facing and the likely impact that these may have on our mandate to collect all revenues due, protect our borders and facilitate legitimate trade. Our response has been to refocus our efforts on building a strong and agile organisation, capable of adapting to and managing the challenges facing us. We are also aware of the domestic and organisational specific risks that we must understand, manage and mitigate as SARS endeavours to continue to fulfil its mandate and meet the expectations of our nation.

Revenue

During this period of global upheaval since 2008/9 South Africa has not escaped the effects of the economic crisis. From 2000 to 2008 SARS maintained an annual increase in tax collections of 13.4% which halved to just 6.7% during the financial crisis from 2008 to date. Our annual Tax Statistics publication reveals that the impact of the global recession amounted to some R225 billion of reduced tax revenue, of which R175 billion is directly attributable to shrinkage in Corporate Income Tax.

Within these circumstances and given the relatively fragile economic recovery, the revenue performance of SARS in the 2011/12 years was an exceptional one, reflecting a slow but steady recovery in revenue collection.

SARS collected R742.7 billion in revenue in 2011/12, R3.9 billion above the revised estimate and, importantly, R68.5 billion or 10.2% above revenue collection in 2010/11.

Underlining this story of recovery were year-on-year increases in:

- VAT on imports of 23.5% or R19.3 billion
- Customs Duties of 28.9% or R7.7 billion
- CIT of 14.8% or R19.6 billion
- PIT of 10.6% or R24 billion
- Domestic VAT of 7.3% or R14.9 billion

VAT refunds also grew by 26.4% or R27.3 billion more than the previous year which provided additional impetus to the economy. While Corporate Income Tax was still about R13 billion shy of its pre-crisis peak of R165.5 billion in 2008/9, it is rapidly closing in on that high.

Of particular note were the successful initiatives and processes put in place across all our operational areas, and our ability to monitor revenue progress on a daily, and even hourly, basis. This has laid a strong operational platform which will stand us in good stead in the future.

The cost at which this revenue was collected increased marginally to 1.11%, only 0.01% higher than the previous year. The cost of revenue collection is an important indicator of the efficiency of a revenue administration and we are pleased to reflect that it has remained between 0.98% and 1.17% – in line with international best practice – over the past six years despite the economic downturn and the costs of the Modernisation Programme.

Tax and Customs compliance

The true story of the growth in tax contributions is reflected in the figures since the birth of our democracy 18 years ago as follows:

- The number of registered individual taxpayers increased from 1.7 million in 1994 to more than 6 million in 2010. This number has doubled following policy changes in 2011 to register all individuals in the country who are formally employed (13.7 million individuals by 31 March 2012) despite changes to the tax thresholds

- Over the same period the number of companies registered for income tax increased from 422 000 in 1994 to more than 2 million in 2011/12

- Registered VAT vendors increased from 397 000 in 1994 to 664 000 at present. This number has increased while the threshold for VAT registrations has also risen substantially to the present R1 million turn-over per year

- The number of registered employers grew from 177 000 in 1994 to 385 000 to date

There was further evidence of the growth in compliance in the year under review, with significant increases in the numbers of taxpayers filing, and filing on time. This positive trend is especially encouraging as it comes against difficult economic conditions which usually have a negative effect on compliance. Part of the rise in compliance can be attributed to the increasing ease with which taxpayers and traders can transact with SARS as the switch from manual to electronic filing proceeds apace. SARS's approach of improving service and expanding education and outreach activities, coupled with an administrative penalty regime and effective enforcement actions, have also played a part in helping to embed a culture of compliance.

Some key highlights include:

- Continued improvement in on-time filing for Personal Income Tax, from 80.72% in 2010/11 to 83.16%, due to a robust administrative penalty regime and the impact of the ongoing service modernisation programme

- Encouraging growth in the levels of tax compliance with a record of 4.86 million tax returns submitted during this year's tax season

- An 8.16% achievement in audit coverage of registered taxpayers against a target of 4% for the year

- An 80% uptake in electronic customs manifest submissions by sea, air and road freight entities (against a target of 60%). This shift towards electronic submission has significant efficiency and risk detection benefits.

- A total of 25 248 seizures with a protected value of R2.6 billion, including seizures in counterfeit cigarettes, counterfeit CDs and DVDs, clothing and narcotics.

Modernisation

The year in review marked the sixth year of our Modernisation Programme which continues to bring great benefits to SARS in improvements in efficiency and organisational performance. Modernisation has enabled us to re-engineer key processes in both the tax and Customs environment, enabling us to put in place more resilient, efficient and effective solutions that will ensure future productivity increases and sustainability.

The automation of high volume, low risk processes also enabled the release of a significant number of SARS employees who were engaged in routine, low-value bearing tasks to priority areas such as taxpayer engagement and outreach.

Some highlights are:

- The modernisation of Customs systems and processes at offices and ports of entry offering trade the benefits of greater ease of movement of goods, faster turnaround times and cost savings. This included the introduction of an advanced case management system, an enhanced inspection process, the electronic submission of supporting documents and an electronic release system. We now also have a centralised view of national risk which has positively impacted on our ability to effectively mitigate risks.

- Modernisation of our tax processes has resulted in increasing ease of compliance for taxpayers and faster service and payment of refunds The increased use of technology enabled SARS to process 98% of all returns within 24 hours and also to pay R11.9 billion in refunds to taxpayers – 85% of which were paid within 72 hours – a contribution to household incomes and the domestic economy. The Modernisation Programme has also significantly improved the ability of SARS to detect and deter non-compliance through its risk engine including:

- VAT vendors selected for further verification of their refund claims are requested to submit documents in support of their declaration or given the option to revise their declaration. In the year under review this process resulted in adjustments in SARS's favour of almost R12 billion

- Since the introduction of our new risk engine for CIT in November 2011 we have seen adjustments in SARS's favour of almost R500 million until 31 March 2012

- Our PIT risk engine and process resulted in adjustments of over R2 billion this year in SARS's favour

People

SARS is committed to the development of our most valuable asset, our people, with the view to sustaining and enhancing performance going forward. We recognise the critical role that good leadership will play in the continued success of our organisation. To this end we have launched a value-based leadership programme comprising a number of interventions targeted at middle and senior levels of management.

Work has also started on redefining the desired SARS culture and mapping out the journey to the desired end state. The results of SARS's Connexion Survey, the annual barometer tracking employee engagement levels in the organisation, showed an improvement of 2.9% in the year under review. This is in line with the positive trend in overall employee engagement levels that have been recorded in the past six measurement cycles.

This improvement can directly be ascribed to, amongst others, the enhancement and implementation of employee engagement initiatives in terms of care and concern, operating model re-alignment, leadership development, the staff recognition system and organisational awards.

Governance

SARS's governance is about ensuring that revenue and customs administration is efficient, effective, ethical and lawful. It results from the alignment of policies, structures, systems and practices with our operating model to achieve strategic objectives and compliance with legislation – especially the principles of fair administrative action. Governance is about the "right" people making the "right" decisions, in the "right" way and at the "right" time. The entrenched values-driven leadership and decision-making mechanisms adopted and implemented by SARS across all spheres of the organisation are the cornerstone of our governance system.

Legislative advances

We took a giant step forward when the Tax Administration Bill was approved by Parliament in 2011, bringing to a close a consultative process that began in 2009. The Bill modernises and harmonises the common administrative elements of current tax law and makes other improvements in this arena. It is expected to be promulgated and most of its provisions brought into force in 2012.

To improve South Africa's international treaty network and co-operation between tax administrations, 12 international tax agreements were concluded at officials' level.

The Voluntary Disclosure Programme that ended on 31 October 2011 attracted 17 743 applications and resulted in the collection of approximately R1.5 billion in taxes. It also provided useful insights into areas of non-compliance that will receive focused attention in future. This includes the under-declaration of income such as rental and foreign income and capital gains, non-declaration of gains from share incentive schemes by corporate executives and the non-declaration of benefits granted to foreign persons employed in South Africa.

Co-operative administration

Co-ordination and collaboration across different parts of government is a key enabler for cost-effective improvements in service delivery to our citizens. In this regard, SARS is involved in collaborative efforts with other government agencies to leverage the knowledge we have gained and the investments government has made in SARS to benefit the wider public sector and thereby our citizens. Among the state institutions SARS is working with to achieve greater efficiencies are the Department of Home Affairs, with whom SARS has entered into a partnership to assist with their modernisation process, the Department of Labour Compensation Fund, the Government Pension Administration Agency and jointly with the DTI (including the Companies and Intellection Property Commission), National Treasury and Stats SA on the development of an integrated business register for South Africa.

A further important area of co-operation is in border management and control where SARS chairs the Border Control Operations Co-ordinating Committee (BCOCC). We are also the deputy chair of the Inter Agency Clearing Forum (IACF) which was born out of the preparations for the FIFA 2010 World Cup and has as its main objective the enhanced co-operation and functioning of agencies and government departments at South Africa's ports of entry.

International engagement

On a continental and regional level, SARS has continued its support for the African Tax Administration Forum (ATAF) by hosting the ATAF Interim Secretariat and through the secondment of staff to the organisation. SARS staff also provided technical expertise at a number of conferences hosted by ATAF. South Africa underscored its commitment to building efficient and effective tax administrations in Africa by ratifying the ATAF Agreement and depositing the Instrument of Ratification with the Interim Secretariat in January 2012.

SARS also places similar importance on regional work in the structures of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Of the four Memorandums of Co-operation signed in 2011/12 three were with regional administrations. These were the Botswana Unified Revenue Service, Seychelles Revenue Commission and Swaziland Revenue Authority. The fourth agreement was with the Dutch Tax and Customs Administration. These agreements serve as the foundation for close co-operation and sharing of expertise between administrations.

In keeping with its commitment to developing tax and customs capacity on the continent, SARS continued to provide assistance to other African administrations in the form of workshops, study visits and attachments. As part of its outreach and capacity building initiatives, SARS introduced a Capacity Building Programme under which it hosted events on taxation in the mining sector, customs modernisation and investigation and audit. SARS also hosted training groups from the Indian Revenue Service. On the international front, particular emphasis has been placed on the role of South Africa within the World Customs Organisation (WCO), the Organisation for Economic Co-operation and Development (OECD), the Global Forum on Transparency and Exchange of Information for Tax Purposes and the India, Brazil, South Africa (IBSA) forum.

SARS was elected in 2011 as the Deputy Vice Chair of the WCO Eastern and Southern Africa region and as regional representative to the WCO Policy Commission.

Conclusion

Looking back over the past year it is evident that SARS, despite challenging circumstances, has once again delivered on its mandate. In so doing, SARS has reaffirmed its reputation as an effective, efficient institution with integrity. We are deeply grateful for the recognition we received in this regard as the recipients of the overall Public Sector Excellence Award for the leading public sector institution for the third year running.

At the heart of SARS's performance are its people, they are the real wealth of this institution. This is borne out by the incredible commitment shown by the dedicated and loyal men and women of SARS in the pursuit of excellence.

I would like to express my appreciation to the Minister of Finance, Pravin Gordhan, for his leadership and overwhelming support throughout the year. Together with the Deputy Minister of Finance, Nhlanhla Nene, they have provided invaluable strategic guidance in helping us to meet the challenges in our path.

Finally, I must express my sincere appreciation to all the law abiding, patriotic taxpayers and traders who, by meeting their tax and customs obligations honestly and timeously, play a central role in supporting our country's growth and development.

Oupa Magashula
SARS Commissioner

Performance and organisational highlights 01

1.1 REVENUE OVERVIEW

The outflow of the four core outcomes of SARS is revenue collection. This section provides an overview of revenue collection for the financial year in review (1 April 2011 to 31 March 2012), providing detail in respect of revenue collected by tax and customs type as against target and as against prior years.

1.1.1 OVERALL REVENUE PERFORMANCE IN 2011/12

Budget estimates of tax revenue are formally set and generally adjusted three times in a fiscal year: the revenue target for the next financial year is first set in the February Budget (generally referred to as the Printed Estimate) and may then be adjusted in October in the Medium Term Budget Policy Statement (MTBPS) and finally revised in the February Budget (the Revised Estimate) shortly before the close of the financial year-end on 31 March. Presented in Table 1 are the dates and amounts of these targets for 2010/11 and 2011/12 financial years.

Table 1: Budget estimates – 2010/11 and 2011/12

Estimate description	Date announced	2010/11 Estimate	Date announced	2011/12 Estimate
		R million		**R million**
Printed Estimate	17 February 2010	647 850	23 February 2011	741 620
Medium Term Budget Policy Statement (MTBPS) Estimate	27 October 2010	679 200	25 October 2011	728 592
Revised Estimate	**23 February 2011**	**672 200**	**22 February 2012**	**738 735**

Despite considerable global economic uncertainty, with most of the developed world stagnating or even contracting, on 31 March 2012 SARS recorded revenue collections of R742.7 billion for the 2011/12 fiscal year. This was R3.9 billion above the Revised Estimate tax revenue target of R738.7 billion, R68.5 billion (10.2%) more than the previous financial year.

Table 2 indicates the composition of tax revenue by tax product and compares actual performance to the 2011 Printed and MTBPS Estimates as well as to the 2012 Revised Estimate. Of the R3.9 billion surplus against the Revised Estimate, the most significant contributors were Secondary Tax on Companies (STC) and Customs duties. Corporate Income Tax (CIT), while showing steady growth from the prior year, remained below the pre-crisis levels that were achieved in 2008/09.

Table 2: Tax revenue performance for 2011/12 by product

Tax type	Printed Estimate Feb 2011	MTBPS Estimate Oct 2011	Revised Estimate Feb 2012	Actual result	Increase / decrease on Printed Estimate	Increase / decrease on MTBPS Estimate	Increase / decrease on Revised Estimate
	R million	R million	R million	R million	R million	R million	R million
Taxes on income and profits	418 345	418 944	423 805	426 584	8 239	7 639	2 779
Persons and individuals	*254 173*	*253 967*	*250 570*	*251 339*	*-2 833*	*-2 628*	*769*
Companies	146 072	145 972	153 735	153 272	7 200	7 300	-463
Secondary tax on companies	18 100	19 000	19 500	21 965	3 865	2 965	2 465
Other	-	5	-	7	7	2	7
Value-Added Tax	200 880	187 464	190 815	191 020	-9 860	3 556	205
Fuel levy	36 900	36 900	37 180	36 602	-298	-298	-578
Customs duties	29 860	31 000	32 260	34 198	4 338	3 198	1 938
Specific excise duties	25 085	24 840	25 880	25 411	326	571	-469
Taxes on property	9 590	7 873	7 870	7 817	-1 773	-55	-53
Skills Development Levy	9 150	10 000	10 100	10 173	1 023	173	73
Other taxes and duties	11 810	11 571	10 825	10 844	-966	-728	19
Total tax revenue	**741 620**	**728 592**	**738 735**	**742 650**	**1 030**	**14 057**	**3 915**
Customs revenue *	120 884	126 756	134 370	136 013	15 130	9 258	1 643
Tax revenue (excluding customs revenue)	620 736	601 837	604 365	606 636	-14 100	4 800	2 272
Total tax revenue	**741 620**	**728 592**	**738 735**	**742 650**	**1 030**	**14 057**	**3 915**

Note: * Customs revenue includes Import VAT, Customs duties, Miscellaneous customs and excise and Incandescent light bulb levy.

Budget revenue comprises all revenue streams to the fiscus – both tax revenue and non-tax revenue – but excludes allocations of Customs duties to Botswana, Lesotho, Namibia and Swaziland in terms of the Southern African Customs Union (SACU) agreement. Non-tax revenue includes mineral and petroleum royalties, mining leases and ownership (which are also collected by SARS) as well as revenue from other departments. Table 3 shows a breakdown of budget revenue.

Table 3: Budget revenue performance for 2011/12

Tax type	Printed Estimate Feb 2011	MTBPS Estimate Oct 2011	Revised Estimate Feb 2012	Actual result	Increase / decrease on Printed Estimate	Increase / decrease on MTBPS Estimate	Increase / decrease on Revised Estimate
	R million	R million	R million	R million	R million	R million	R million
Tax revenue	741 620	728 592	738 735	742 650	1 030	14 057	3 915
Non-tax revenue	10 001	11 713	17 579	17 074	7 073	5 361	-505
Mineral and Petroleum Royalties	*4 890*	*4 890*	*5 500*	*5 612*	*722*	*722*	*112*
Mining leases and ownership (previously incl in Tax Revenue)	*-*	*-*	*-*	*80*	*80*	*80*	*80*
*Other departmental revenue received at National Treasury**	*5 111*	*6 823*	*12 079*	*11 383*	*6 272*	*4 560*	*-697*
Less: SACU payments	26 653	21 763	21 763	21 760	-4 893	-3	-3
Total budget revenue	**724 968**	**718 542**	**734 551**	**737 964**	**12 996**	**19 422**	**3 413**

Note: * The figures for other departmental revenue received at National Treasury are preliminary and unaudited.

Aside from tax revenue and certain non-tax revenue as mentioned above, SARS also collects revenue on behalf of the Unemployment Insurance Fund (UIF) and the Road Accident Fund (RAF) as well as certain provincial administration receipts.

The total net revenue (or administered revenue) collected by SARS is therefore the combination of all tax revenue and all other revenue collected by SARS, less SACU payments. The net revenue increased from R686.3 billion in 2010/11 to R755.4 billion in 2011/12, a year-on-year increase of R69.1 billion (10.1%) as shown in Table 4.

Table 4: Net revenue – 2010/11 and 2011/12

Revenue	2010/11	2011/12	Year-on-year change	
	R million	R million	R million	%
Tax revenue	**674 183**	**742 650**	**68 468**	**10.2%**
Other administered revenue collected by SARS	30 034	34 507	4 473	14.9%
Unemployment Insurance Fund (UIF)	11 099	12 184	1 085	9.8%
Road Accident Fund (RAF)	14 501	16 628	2 127	14.7%
Mineral and Petroleum Royalty	3 555	5 612	2 057	57.9%
Mining leases and ownership	860	80	-780	-90.7%
State fines and forfeitures	0	-	-0	-
Provincial administration receipts	19	3	-16	-83.0%
Less: Southern African Customs Union (SACU)	17 906	21 760	3 854	21.5%
Net revenue for the year *	**686 311**	**755 397**	**69 087**	**10.1%**

Note: * SARS administered revenue.

1.1.2 BREAKDOWN OF TAX REVENUE COLLECTIONS AND CONTRIBUTION TO TAX REVENUE FROM 2006/07 TO 2011/12

Personal Income Tax (PIT), Corporate Income Tax (CIT) and Value-Added Tax (VAT) remain the largest sources of tax revenue, comprising approximately 80% of total tax revenue collections. However, revenue performance trends prior and subsequent to the financial crisis indicate that the relative contributions of the different taxes to the tax revenue portfolio have changed slightly over the past six years. The slump in CIT during and following the financial crisis where the relative contribution of CIT changed from 24.7% in 2007/08 to 20.6% in 2011/12, distorted the well established composition trend, with the relative contribution of PIT and VAT increasing significantly. The extent of the change is evident from the fact that whilst PIT only contributed R28.9 billion more to tax revenue than CIT in 2008/09, this has now more than trebled to R98.1 billion. Table 5 provides a breakdown of the tax revenue collected during the period and the percentage contribution of the various taxes to total taxes collected and the percentage tax revenue to GDP.

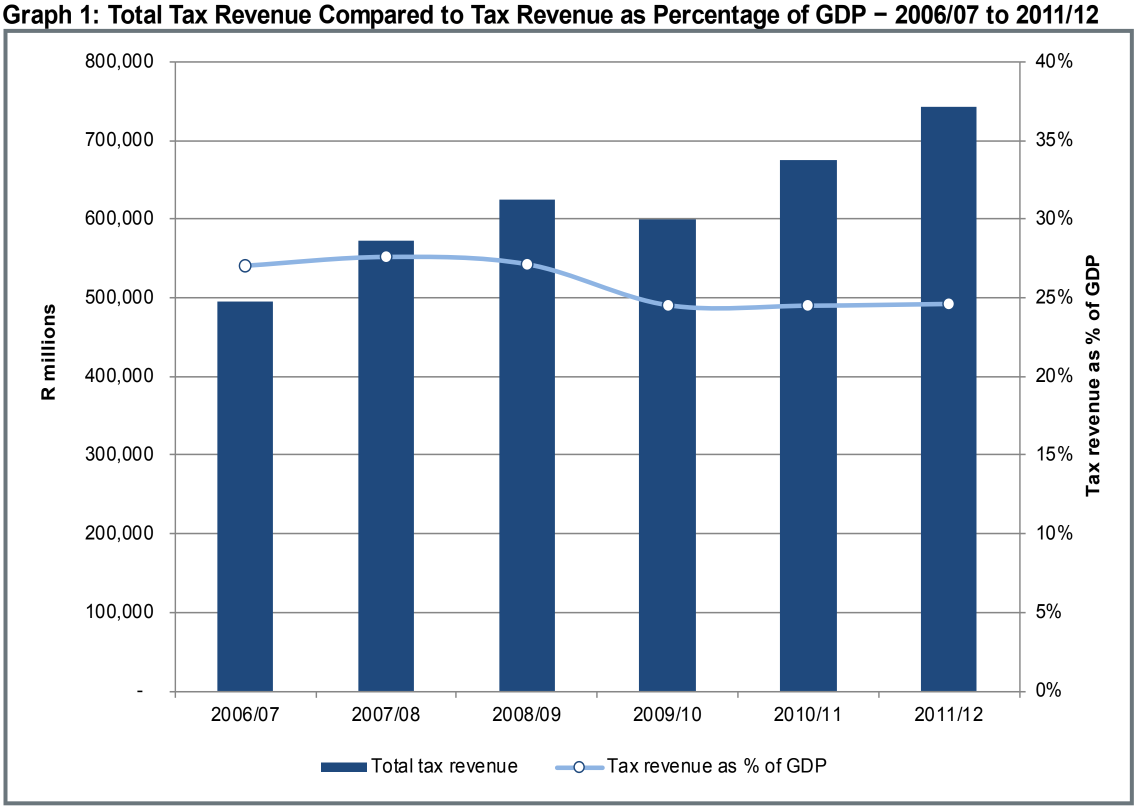
Table 5: Breakdown of revenue collected and contribution to tax revenue – 2006/07 to 2011/12

Year	PIT	CIT	STC	VAT	Fuel levy	Customs duties	Other	Total tax revenue	GDP*
	R million	R million	R million	R million	R million	R million	R million	R million	R million
2006/07	141 397	120 112	15 291	134 463	21 845	23 697	38 744	**495 549**	1 832 761
2007/08	169 539	141 635	20 585	150 443	23 741	26 470	40 401	**572 815**	2 075 695
2008/09	196 068	167 202	20 018	154 343	24 884	22 751	39 834	**625 100**	2 303 553
2009/10	206 484	136 978	15 468	147 941	28 833	19 577	43 425	**598 705**	2 440 164
2010/11	228 096	134 635	17 178	183 571	34 418	26 637	49 647	**674 183**	2 752 119
2011/12	**251 339**	**153 272**	**21 965**	**191 020**	**36 602**	**34 198**	**54 253**	**742 650**	**3 017 939**
	%	%	%	%	%	%	%	%	%
2006/07	28.5%	24.2%	3.1%	27.1%	4.4%	4.8%	7.8%	100.0%	27.0%
2007/08	29.6%	24.7%	3.6%	26.3%	4.1%	4.6%	7.1%	100.0%	27.6%
2008/09	31.4%	26.7%	3.2%	24.7%	4.0%	3.6%	6.4%	100.0%	27.1%
2009/10	34.5%	22.9%	2.6%	24.7%	4.8%	3.3%	7.3%	100.0%	24.5%
2010/11	33.8%	20.0%	2.5%	27.2%	5.1%	4.0%	7.4%	100.0%	24.5%
2011/12	**33.8%**	**20.6%**	**3.0%**	**25.7%**	**4.9%**	**4.6%**	**7.3%**	**100.0%**	**24.6%**

Source: * Q1-2012 GDP, Statistics SA.

Tax revenue as a percentage of GDP (Tax/GDP ratio) has remained steady between 24% and 25% over the last three years (see Graph 1), but this remains significantly less than that achieved in the pre-crisis years when the Tax/GDP ratios exceeded 27%.

Graph 1: Total Tax Revenue Compared to Tax Revenue as Percentage of GDP – 2006/07 to 2011/12



1.1.3 TAX RELIEF AND RATES

The benefits of tax reforms across various tax products resulted in a R51.2 billion net tax relief granted to taxpayers between 2006/07 and 2011/12. Table 6 sets out the tax relief over this period with negative values indicating relief to the taxpayer and positive numbers showing an increase in tax obligation.

Table 6: Summary effects of tax proposals – 2006/07 to 2011/12

Year	Direct				Indirect				Total relief
	PIT	CIT	Other	Total	Excise	Fuel levy	Other	Total	
	R million	R million	R million	R million	R million	R million	R million	R million	R million
2006/07	-12 125	-400	-6 940	**-19 465**	1 348	-	-1 010	**338**	**-19 127**
2007/08	-8 870	-2 785	-3 000	**-14 655**	1 395	950	-90	**2 255**	**-12 400**
2008/09	-7 700	-6 900	-	**-14 600**	1 350	1 250	* 1 500	**4 100**	**-10 500**
2009/10	-13 550	-1 000	-	**-14 550**	2 100	4 890	* 2 985	**9 975**	**-4 575**
2010/11	-5 400	-1 350	-	**-6 750**	2 250	3 600	450	**6 300**	**-450**
2011/12	**-8 850**	**500**	**-750**	**-9 100**	**1 935**	**1 900**	**1 150**	**4 985**	**-4 115**
Total	**-56 495**	**-11 935**	**-10 690**	**-79 120**	**10 378**	**12 590**	**4 985**	**27 953**	**-51 167**

Note:* The electricity levy was not introduced in 2008/09 but postponed to 2009/10.

Maximum marginal tax rates (as shown in Table 7) remained mostly unchanged for all categories, with the exception of STC where the rate was reduced to 10% from 1 October 2007 and CIT where a 1% reduction came into effect from 1 April 2008. Tax on retirement funds was abolished as from 1 March 2007. Despite the aforementioned relief over this period, growth in tax revenue was achieved as a result of economic growth and an increase in compliance.

Table 7: Maximum marginal tax rates – 2006/07 to 2011/12

Period	PIT*	CIT	STC	VAT	RFT**
	%	%	%	%	%
01 Apr 2006 – 28 Feb 2007	40.0%	29.0%	12.5%	14.0%	9.0%
01 Mar 2007 – 30 Sep 2007	40.0%	29.0%	12.5%	14.0%	**0.0%**
01 Oct 2007 – 31 Mar 2008	40.0%	29.0%	**10.0%**	14.0%	0.0%
01 Apr 2008 – 31 Mar 2009	40.0%	**28.0%**	10.0%	14.0%	0.0%
01 Apr 2009 – 31 Mar 2010	40.0%	28.0%	10.0%	14.0%	0.0%
01 Apr 2010 – 31 Mar 2011	40.0%	28.0%	10.0%	14.0%	0.0%
01 Apr 2011 – 31 Mar 2012	**40.0%**	**28.0%**	**10.0%**	**14.0%**	**0.0%**

Note: * An individual's tax year starts on 1 March and ends at the end of February the subsequent year.

** Tax on retirement funds.

1.2 INCREASED CUSTOMS COMPLIANCE

The first core outcome of SARS is to increase customs compliance. In this section we report on customs revenue performance as an indicator of improvements in this area as well as reporting on key initiatives, activities and measures during the year in review which directly or primarily contributed to increasing customs compliance.

1.2.1 CUSTOMS REVENUE PERFORMANCE

Customs revenue amounted to R136.0 billion during the 2011/12 financial year. This was R1.6 billion above the Revised Estimate of R134.4 billion. Import VAT, which is paid on the import of goods into South Africa, and Customs duties are the largest sources of customs revenue with the other taxes contributing less than 1% of the total as shown in Table 8.

Table 8: Customs revenue performance for 2011/12 by product

Tax type	Printed Estimate Feb 2011	MTBPS Estimate Oct 2011	Revised Estimate Feb 2012	Actual result	Increase / decrease on Printed Estimate	Increase / decrease on MTBPS Estimate	Increase / decrease on Revised Estimate
	R million	R million	R million	R million	R million	R million	R million
Import VAT	90 539	95 329	102 000	101 813	11 274	6 484	-187
Customs duties	29 860	31 000	32 260	34 198	4 338	3 198	1 938
Miscellaneous customs & excise	410	307	5	-141	-551	-448	-146
Incandescent light bulb levy	75	120	105	144	69	24	39
Total customs revenue	**120 884**	**126 756**	**134 370**	**136 013**	**15 130**	**9 258**	**1 643**

While Import VAT collections of R101.8 billion were marginally below the Revised Estimate of R102.0 billion, year-on-year collections grew by 23.9%. Import VAT collections for the past six years are reflected in Table 9.

Table 9: Import VAT – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	66 917	33.1%	13.5%	3.7%
2007/08	77 929	16.5%	13.6%	3.8%
2008/09	92 010	18.1%	14.7%	4.0%
2009/10	70 320	-23.6%	11.7%	2.9%
2010/11	82 189	16.9%	12.2%	3.0%
2011/12	**101 813**	**23.9%**	**13.7%**	**3.4%**

Customs duties refer to all duties paid on the import of goods as determined by the different tariff codes under which goods are declared and cleared. Customs duties collections amounted to R34.2 billion and were R1.9 billion higher than the Revised Estimate of R32.3 billion and grew year-on-year by 28.4%. Customs duties collections for the past six years are shown in Table 10.

Table 10: Customs duties – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	23 697	29.5%	4.8%	1.3%
2007/08	26 470	11.7%	4.6%	1.3%
2008/09	22 751	-14.0%	3.6%	1.0%
2009/10	19 577	-14.0%	3.3%	0.8%
2010/11	26 637	36.1%	4.0%	1.0%
2011/12	**34 198**	**28.4%**	**4.6%**	**1.1%**

1.2.2 ENHANCED RISK ENGINE

The increase in compliance over the past few years was underpinned by improvements to the risk engine which allowed SARS to focus its attention on higher risk consignments while allowing legitimate and lower risk imports and exports to move quickly through our borders. In the year in review, the risk engine was further enhanced to include Vouchers of Correction which allow for traders to make corrections to declarations where legitimate errors have occurred. This had the effect of reducing duplicate entries, ensuring proper control of declarations submitted and further focusing operational activities on higher risk declarations.

In addition, following engagements at NEDLAC to address concerns relating to undervaluation, task teams have been formed comprising industry, labour and SARS. Tariff Headings that constitute the largest threat to industry and labour were identified, and a price reference engine has been implemented. The price referencing tool was designed as a risk tool to alert tariff lines where serious suspicion of undervaluation is suspected. Formal engagements on this issue were held with the tyre manufacturing, alcohol, diamond, precious metal and meat industries. Engagements with the tobacco industry are continuing.

1.2.3 NEW CASE MANAGEMENT AND INSPECTION PROCESS

The drive to improve trader compliance began with an internal focus on SARS's procedures and systems. This saw the introduction of the Service Manager case management workflow coupled with a re-engineered inspections process. The solution that was introduced integrates the processing of documentation with the payments of duties, thus eliminating the disconnected process of the past, where goods could have been cleared for imports without payments having been received before release of such goods.

Building on the achievements of the internal improvements, focus was placed on specific areas of non-compliance, beginning with the land-border process. The following functionality was introduced to improve compliance:

- The replacement of the legacy CCA system with the international CAPE and Export systems in order to standardise and align SARS's processing
- An enhanced inspection process, with declarations processed off-site and the introduction of a mobile solution to assist customs officials with physical inspections
- No entry of commercial cargo into the port without pre-clearance
- A new gate pass system targeted at commercial vehicles

The inspection process underwent re-engineering to ensure that it became a seamless part of the enhanced method of declaration processing. The practical implications of this re-engineering are far reaching – it aids with the elimination of corruption in that inspectors may no longer select the cases that they work on. This makes it very difficult for illicit traders to collude with potentially corrupt officials. The benefits are two-fold, internally to Customs from a productivity and integrity perspective and secondly to traders, due to unnecessary and repetitive stops being decreased.

The use of a mobile device by a Customs officer to conduct a physical inspection realised some significant enhancements over the previous manual process. A mobile device means that all the functions of Service Manager are now available at the inspector's fingertips – while conducting inspections within the Customs Control Area of the border post. WiFi technology was made available at the port which ensures wireless integration between Service Manager and the mobile devices. Inspectors receive their instructions on the device, capture the results and make recommendations which then go to the finalisation inspector. Customs officers can also take photographs with the device if further clarification on the goods they are inspecting is required. Inspectors no longer have to move back and forth to the office, and their next job can be assigned to them on the spot. This is expected to substantially reduce the time spent on physical inspections and minimise human error.

1.2.4 PREFERRED TRADERS

SARS's aspiration to increase Customs compliance includes developing partnerships with all supply chain stakeholders in order to facilitate legitimate trade whilst at the same time combating illicit trade in order to strengthen and secure the economy and collect all revenues due. One of the key initiatives to achieve this aspiration is accreditation of traders qualifying for the Preferred Trader Programme (PT) and the piloting thereof in the short term, pending the more extensive roll out of this programme.

The Customs Preferred Trader Modernisation Programme was successfully formalised in August 2011 by the amendment to Section 64E of the Customs and Excise Act to include a Level 2 provision for Preferred Traders. The rules set out specific criteria for importers and exporters, designated benefits and the overarching governance framework of the Preferred Trader Programme.

For the 2011/12 year the programme has engaged with 242 of the largest importers and exporters in South Africa, of whom 136 have completed their self-assessment process. SARS has subsequently engaged in an audit process with 105 clients. This included validating client compliance and systems competency as well as assisting clients with compliance improvement initiatives wherever necessary.

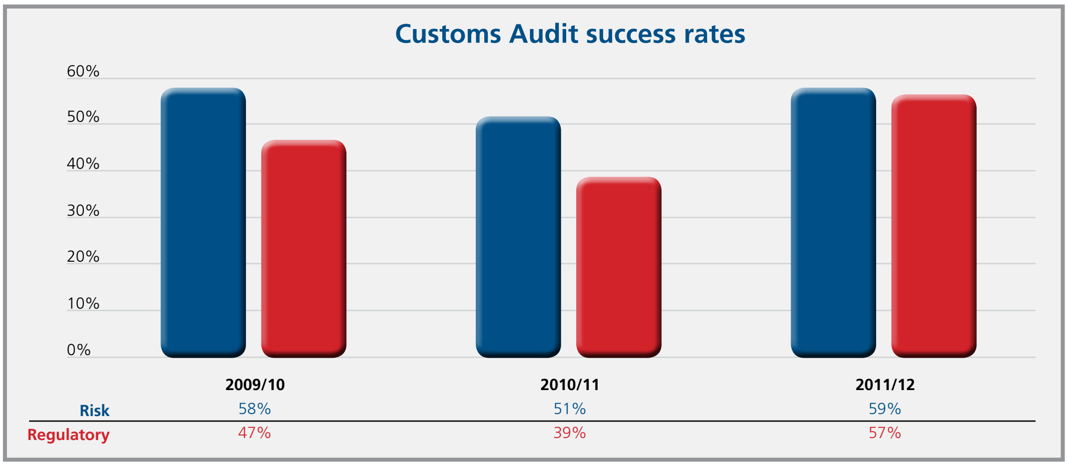
A total of 62 preferred trader audits were finalised during 2011/12. Of the total 13.4 million lines submitted by customs clients, during the 2011/12 period, 2.8 million of these lines were declared by potential preferred traders (21.13%).

1.2.5 CUSTOMS AUDITS

During the reporting period, 2 806 audits were conducted, comprising of 1 069 risk audits and 1 737 regulatory audits.

Due to the continued improvements delivered by the modernisation journey to enhance the speed and accuracy of the risk engines, a 59% success rate was achieved during post clearance audits on cases encompassing either invalid tariffs or valuations (risk audits). A 57% success rate was achieved through post clearance audits pertaining to customs storage and manufacturing warehousing (regulatory audits). (See Graph 2).

Graph 2: Audit processes



1.2.6 COMBATING ILLICIT TRADE

In the combating of illicit trade practices, a number of visible policing activities and interventions such as passenger, baggage and parcel searches, conveyance rummages, roadblocks, cargo examinations, and patrols were conducted by border control units. The interventions provided significant success and resulted in a total of 25 248 seizures with the protected value of R2.6 billion.

Among the key seizures in the year of review were:

- 75 456 master cases of illicit cigarettes, with a protected value estimated at R278.4 million
- 2 937 narcotic seizures with an estimated value of R200.9 million
- 35 CITES seizures with an estimated value of R59.5 million
- 130 183 counterfeit CDs and DVDs, with a protected value estimated at R17.6 million
- 7 348 937 clothing pieces, with a protected value estimated at R1.1 billion

Many of the success of the interventions can be attributed to the Detector Dog Unit. This unit has played an important role in the prevention and detection of smuggling of prohibited and restricted goods/substances at our land, sea and air ports of entry. Since its establishment five years ago the unit has grown to a present strength of 62 dogs in 2012.

1.3 INCREASED TAX COMPLIANCE

Increasing compliance with tax legislation is the second core outcome of SARS's Strategic Plan. Compliance is required – and measured – across a range of aspects including ensuring taxpayers are registered when required, submit returns on time, declare all income honestly and pay tax to SARS on time. In this section we report on key achievements in these areas during the year as well as reflecting on the impact these have had on tax collections. We cover both customs and tax payment compliance together in the section under debt management for the purposes of providing a comprehensive picture of debt management.

1.3.1 TAX REVENUE PERFORMANCE

Tax revenue (excluding customs revenue) amounted to R606.6 billion for the 2011/12 financial year. This was R2.3 billion above the Revised Estimate target of R604.4 billion as shown in Table 11.

Table 11: Tax revenue (excluding customs revenue) performance for 2011/12 by product

Tax type	Printed Estimate Feb 2011	MTBPS Estimate Oct 2011	Revised Estimate Feb 2012	Actual result	Increase / decrease on Printed Estimate	Increase / decrease on MTBPS Estimate	Increase / decrease on Revised Estimate
	R million	R million	R million	R million	R million	R million	R million
Persons and individuals	254 173	253 967	250 570	251 339	-2 833	-2 628	769
Companies	146 072	145 972	153 735	153 272	7 200	7 300	-463
Secondary tax on companies	18 100	19 000	19 500	21 965	3 865	2 965	2 465
Domestic VAT	237 192	216 983	220 211	220 215	-16 977	3 232	4
VAT refunds	-126 851	-124 848	-131 396	-131 008	-4 157	-6 160	389
Fuel levy	36 900	36 900	37 180	36 602	-298	-298	-578
Specific excise duties	25 085	24 840	25 880	25 411	326	571	-469
Taxes on property	9 590	7 873	7 870	7 817	-1 773	-55	-53
Skills Development Levy	9 150	10 000	10 100	10 173	1 023	173	73
Other taxes and duties	11 326	11 150	10 715	10 848	-477	-302	133
Total tax revenue (excl customs)	**620 736**	**601 837**	**604 365**	**606 636**	**-14 100**	**4 800**	**2 272**

Personal Income Tax (PIT) comprises assessed and provisional tax as well as Pay-As-You-Earn (PAYE) paid by individuals (net of refunds) and is the largest contributor to tax revenue. A total of R251.3 billion was collected against the Revised Estimate of R250.6 billion, contributing 33.8% of total revenue collections. Despite muted job growth, PIT grew by 10.2% against the previous year due to higher growth in PAYE on the back of above-inflation wage settlements. Table 12 shows PIT collections from 2006/07 to 2011/12.

Table 12: PIT revenue including interest – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	141 397	11.9%	28.5%	7.7%
2007/08	169 539	19.9%	29.6%	8.2%
2008/09	196 068	15.6%	31.4%	8.5%
2009/10	206 484	5.3%	34.5%	8.5%
2010/11	228 096	10.5%	33.8%	8.3%
2011/12	**251 339**	**10.2%**	**33.8%**	**8.3%**

Corporate Income Tax (CIT) comprises all provisional and assessed taxes paid by companies (net of refunds). CIT slumped due to a contraction in profits during the financial crisis and has fared the worst of all the tax types and has still not recovered to pre-crisis levels, still remaining well below the high of R167.2 billion collected in 2008/09. This despite the strong growth of 13.8% against the previous year. This slow recovery of CIT primarily accounts for the slow recovery of the tax to GDP ratio. Table 13 shows CIT revenue from 2006/07 to 2011/12.

Table 13: CIT revenue including interest – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	120 112	37.5%	24.2%	6.6%
2007/08	141 635	17.9%	24.7%	6.8%
2008/09	167 202	18.1%	26.7%	7.3%
2009/10	136 978	-18.1%	22.9%	5.6%
2010/11	134 635	-1.7%	20.0%	4.9%
2011/12	**153 272**	**13.8%**	**20.6%**	**5.1%**

Sector CIT contributions were quite different during and subsequent to the global financial crisis. The past three years saw a slump in both the construction and manufacturing sectors. This could be attributed to the slow recovery of production volumes following the 2010 FIFA World Cup coupled with the global financial crisis. The mining, finance as well as wholesale and retail trade sectors showed robust growth on the back of a modest economic recovery. A detailed breakdown of CIT revenue by sector is provided in Table 14.

Table 14: CIT revenue by sector – 2009/10 to 2011/12

Sector *	2009/10	2010/11	Growth	2011/12	Growth
	R million	R million	%	R million	%
Agriculture	2 301	1 954	-15.1%	2 247	15.0%
Mining	10 658	17 706	66.1%	21 030	18.8%
Telecommunications	11 138	8 969	-19.5%	9 722	8.4%
Financial services	35 364	33 299	-5.8%	40 306	21.0%
Banks	*9 227*	*10 540*	*14.2%*	*15 987*	*51.7%*
Insurance	*10 185*	*13 482*	*32.4%*	*13 656*	*1.3%*
Other financial services	*15 952*	*9 277*	*-41.8%*	*10 662*	*14.9%*
Manufacturing	35 516	28 882	-18.7%	35 943	24.4%
Petroleum	*6 954*	*4 148*	*-40.4%*	*8 672*	*109.1%*
Other manufacturing	*28 562*	*24 734*	*-13.4%*	*27 271*	*10.3%*
Wholesale and retail trade	14 287	14 985	4.9%	17 052	13.8%
Business services	11 321	12 983	14.7%	11 800	-9.1%
Medical and health	3 327	3 823	14.9%	3 924	2.6%
Transport	2 885	3 505	21.5%	2 839	-19.0%
Construction	5 982	4 062	-32.1%	3 486	-14.2%
Catering and accommodation	1 466	1 344	-8.3%	1 343	-0.0%
Recreation and cultural	2 380	2 423	1.8%	2 690	11.0%
Other	353	700	98.2%	891	27.4%
Total	**136 978**	**134 635**	**-1.7%**	**153 272**	**13.8%**

Note: * SARS-defined sector.

Secondary Tax on Companies (STC) is a tax on dividends declared by companies in South Africa. STC collections amounted to R22.0 billion for 2011/12 and this strong performance against the Revised Estimate was the largest contributor to the tax revenue surplus of R2.3 billion. Significant collections were realised after the announcement in the 2012 Budget of the implementation of dividend withholding tax on 1 April 2012 to replace STC, contributing to collections being above the Revised Estimate by R2.5 billion and R4.8 billion (27.9%) year-on-year. The STC collections for the past six years are shown in Table 15.

Table 15: STC revenue – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	15 291	24.5%	3.1%	0.8%
2007/08	20 585	34.6%	3.6%	1.0%
2008/09	20 018	-2.8%	3.2%	0.9%
2009/10	15 468	-22.7%	2.6%	0.6%
2010/11	17 178	11.1%	2.5%	0.6%
2011/12	**21 965**	**27.9%**	**3.0%**	**0.7%**

Domestic VAT collections' year-on-year growth was relatively muted at 7.4% and despite fragile consumption was propped up by administered inflation in the energy, coal and petroleum industries. The growth in the financial services sector, being the largest contributor to domestic VAT, remained at modest levels. Table 16 shows the domestic VAT collections over a six year period.

Table 16: Domestic VAT – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	144 884	15.2%	29.2%	7.9%
2007/08	171 619	18.5%	30.0%	8.3%
2008/09	187 171	9.1%	29.9%	8.1%
2009/10	195 050	4.2%	32.6%	8.0%
2010/11	205 029	5.1%	30.4%	7.4%
2011/12	**220 215**	**7.4%**	**29.7%**	**7.3%**

VAT refunds grew significantly year-on-year by 26.4% against a base that was reduced due to the lingering effects of the financial crisis. The growth was mainly as a result of increased economic activity, increased capital expenditure in the mining, chemicals and coal industries, as well as improved and faster processing of refunds due to the introduction of modernised risk management algorithms and the relatively low base from subdued economic activity in 2011. VAT refunds are shown in Table 17.

Table 17: VAT refunds – 2006/07 to 2011/12

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2006/07	-77 338	25.4%	-15.6%	-4.2%
2007/08	-99 105	28.1%	-17.3%	-4.8%
2008/09	-124 838	26.0%	-20.0%	-5.4%
2009/10	-117 428	-5.9%	-19.6%	-4.8%
2010/11	-103 646	-11.7%	-15.4%	-3.8%
2011/12	**-131 008**	**26.4%**	**-17.6%**	**-4.3%**

1.3.2 REGISTRATION COMPLIANCE

Tax base broadening activities ensure that those entities not registered for tax are registered. SARS pursued increased registrations in a variety of ways including education, outreach and enforcement initiatives. Through the successful application and implementation of these compliance initiatives, the overall SARS tax and trader register reflects a positive growth of 23% (See Table 18).

In 2010/11 SARS changed its policy and stipulated that everyone who is formally employed must register, rather than only those who are above the tax threshold. This approach is now paying dividends with the number of individuals on register, more than doubling since 2009/10 to 13.7 million taxpayers.

For the year ending 2011/12, more than 3.4 million individuals, most of whom were already taxpayers by means of PAYE, were registered through the various channels and added to the SARS database. This means that the number of individuals registered for Income Tax has again grown dramatically year-on-year, from 10.3 million taxpayers in 2010/11 to 13.7 million taxpayers in 2011/12 (33%). This growth in individual taxpayers makes up the biggest contribution to the overall positive growth of 23%.

Table 18: Register Data

Registered Taxpayers	2008/09	2009/10	2010/11	2011/12	% Growth
Income Tax	7 766 915	8 131 422	12 751 006	16 039 801	**25.8%**
Individuals	*5 540 646*	*5 920 612*	*10 346 175*	*13 703 717*	*32.5%*
Trusts	*392 260*	*331 954*	*326 649*	*301 365*	*-7.7%*
Companies	*1 834 009*	*1 878 856*	*2 078 182*	*2 034 719*	*-2.1%*
Value-Added Tax	**737 885**	**685 523**	**664 267**	**652 349**	**-1.8%**
Pay-As-You-Earn	**393 974**	**395 575**	**386 428**	**384 883**	**-0.4%**
Customs	**422 636**	**439 065**	**456 138**	**471 811**	**3.4%**
Importers	*228 350*	*229 442*	*238 779*	*247 595*	*3.7%*
Exporters	*194 286*	*209 623*	*217 359*	*224 216*	*3.2%*
Total Register	**9 321 410**	**9 651 585**	**14 257 839**	**17 548 844**	**23.1%**

1.3.3 FILING COMPLIANCE

1.3.3.1 PIT FILING

Since 2008/09 on time PIT filing has shown significant improvement each year, increasing from 58% in 2008 to 83.16% during the 2011 Tax Season. Among the key factors which have encouraged this growth in compliance are improvements in the ease of submission through electronic filing, pre-population of returns and other enhancements as part of the Modernisation Programme, along with the introduction of stiff penalites for outstanding returns.

Table 19: PIT Filing Compliance

Year	PIT Filing		
Financial Year	**Returns Required**	**Returns on Time**	**Returns on Time (%)**
2008/09	4 186 834	2 418 286	57.76%
2009/10	3 961 391	3 116 024	78.66%
2010/11	4 084 151	3 296 768	80.72%
2011/12	4 232 027	3 519 157	83.16%

1.3.3.2 PAYE FILING

The number of monthly PAYE EMP201 returns filed on time by employers is showing signs of improvement, growing from 62.9% in 2009/10 to 69.80% in 2011/12 (see Table 20). While this remains below the compliance rate of PIT, factors contributing to the lower level include the number of dormant or no longer operational businesses in the employer register. The expansion of administrative penalties for outstanding returns to employers in the near future is anticipated to have a significant impact on compliance levels.

Table 20: PAYE Filing Compliance

Year	PAYE Filing			
Financial Year	**Returns Required**	**Returns on Time**	**Manual**	**Returns on Time (%)**
2009/10	4 456 321	2 802 978	373 250	62.90%
2010/11	4 413 913	3 010 938	173 770	68.21%
2011/12	4 516 121	3 152 325	45 192	69.80%

1.3.3.3 VAT FILING

The on-time filing for VAT remains concerning and has in fact shown a decline over the past three years. The modernisation of the VAT system began in earnest during the year in review and is anticipated to significantly contribute to higher levels of compliance in on-time filing, both by increasing the ease of submission as well as improving the accuracy of the VAT register to identify dormant and/or non-existent VAT vendors.

Table 21: VAT Filing Compliance

Year	VAT Filing		
Financial Year	Returns Required	Returns on Time	Returns on Time (%)
2009/10	4 269 064	2 455 759	57.9%
2010/11	3 974 346	2 352 527	59.2%
2011/12	4 007 835	2 224 344	55.5%

1.3.4 ADMINISTRATIVE PENALTIES

A new administrative penalty regime was introduced in 2009 to improve compliance with administrative requirements including on-time filing. The system is based on the concept of proportionality, i.e. the penalty amount levied on non-compliant taxpayers is linked to the degree of the transgression. The administrative penalty regime in SARS was introduced in a phased approach with penalties levied for outstanding income tax returns in the first phase. Since the first penalties were levied in January 2010, 843 972 taxpayers have been penalised with a total penalty amount of R3.9 billion. During the last financial year penalties in the amount of R2.1 billion were levied in respect of 723 844 taxpayers.

A total of 52.5% of taxpayers who received administrative penalties have subsequently submitted the outstanding returns and 96% of these taxpayers have paid R862 million for penalties due, of which R553 million was received in the 2011/12 financial year.

The non-payment of administrative penalties by some taxpayers continues to receive attention through improvements to the system of collection including automating the system to collect outstanding penalties due by employees directly from employers using the e@syFile PAYE electronic process.

It is anticipated that additional elements of the administrative penalty regime will be implemented in a phased approach for additional tax types (including VAT) over the medium term as part of the modernisation of these taxes.

1.3.5 PAYMENT COMPLIANCE

When measuring taxpayer and trader compliance, on-time payment of taxes and duties completes the compliance value chain. Improved debt management therefore has a crucial role to play in the compliance cycle.

At 31 March 2012 the arrears debt balance was R88.608 billion which as a percentage of tax revenue stood at 11.93% – a decrease of 1.05% from the previous year. While a notable reduction of R584 million in tax and duties debt was achieved, unpaid administrative penalties added an additional R1.658 billion to the overall debt balance. This led to an overall 1.2% growth in debt. Given an 8% compound increase in revenue over the last 14 years and against the 10% year-on-year increase in revenue collection last year, along with the difficult economic conditions, a growth of just 1.2% in overall debt is a significant achievement.

Table 22: Overdue Debt as a Percentage of Revenue

Financial Year	Total Revenue	**Debt** (Excluding Admin Penalties, Estate Duty and Small Business Amnesty Levy)	**Debt** (Including Admin Penalties, Estate Duty and Small Business Amnesty Levy)	**Debt** (Excluding Admin Penalties, Estate Duty and Small Business Amnesty) **as % of Tax Revenue**	**Debt** (Including Admin Penalties, Estate Duty and Small Business Amnesty) **as % of Tax Revenue**
	R million	R million	R million		
1998/1999	184 786	32 680		17.7%	
1999/2000	201 266	32 530		16.2%	
2000/2001	220 119	29 400		13.4%	
2001/2002	252 295	39 200		15.5%	
2002/2003	281 939	53 700		19.1%	
2003/2004	302 443	58 041		19.2%	
2004/2005	354 979	66 740		18.8%	
2005/2006	417 196	65 595		15.7%	
2006/2007	495 549	63 608		12.8%	
2007/2008	572 815	62 853		11.0%	
2008/2009	625 100	61 577		9.9%	
2009/2010	598 705	79 477		13.3%	
2010/2011	674 183	86 092	87 534	12.8%	13.0%
2011/2012	742 651	85 535	88 608	11.5%	11.9%

New debt arising in the year remaining unpaid at year end amounted to R29 billion. Just over R8 billion of this is interest and penalties.

Over the past year debt management received focus within the modernisation agenda. A capability which enables automatic generation of debt cases, based on the overall view of the taxpayer's position by the risk engine, was implemented to replace the legacy case management and tracking system. Through this new functionality on SARS Service Manager the automation of final demands, payment arrangements and agent appointment notifications take place. The Service Manager system also has the advantage of the ability to track individual collector performance thus enabling improved productivity management.

Although progress was made in the past year challenges with account maintenance and tax return data errors continue to impact on the debt and credit book. In future we envisage taxpayers managing their own accounts, freeing SARS resources to deal with debt collection. Collection efforts continue to be hampered by disputes, appeals and objections to assessments, as well as liquidations and estates and cessation of operations. Many of the processes around finalisation of debt in these categories take many years to conclude. Of the total overdue debt of R88.6 billion only 53% are considered active debt collection cases (see Table 23).

SARS has engaged experts to assist in the development of a Doubtful Debt Provision formula. Both a probability of default methodology and a loss given default methodology will be used. Good progress has been made and initial proposals are being reviewed. It is anticipated that a formal doubtful debt provision will be in place by 31 March 2013 which will enable the organisation to reflect the debt book at a value that is likely to be collected.

Table 23: Overdue Taxpayer Debt

Administrative penalties, estate duties and small business amnesty levies had not previously been reported and are now included in the numbers below.

TAXES: Unaudited overdue taxpayer debt (receivables) as at 31 March 2012		
	2011/12	**2010/11**
Segmentation	**R**	**R**
Established Debt		
Active	46 798 194 506	49 545 344 368
Address Unknown	1 256 918 203	654 576 597
Estate	6 883 271 606	6 872 306 699
Total Established Debt	**54 938 384 315**	**57 072 227 664**
Uncertain Debt		
Objections	610 354 995	2 058 886 378
Appeals	11 372 466 735	12 302 392 975
Debt Under Dispute	11 982 821 730	14 361 279 353
Debt Older Than 4 Years	13 106 360 063	10 253 375 289
Taxpayers No Longer Operational	8 580 035 469	5 847 335 178
Total Uncertain Debt	33 669 217 262	30 461 989 820
Total Overdue Taxpayer Debt	**88 607 601 577**	**87 534 217 484**
Comprising		
Capital	57 131 935 534	54 723 905 422
Penalty and additional tax	11 162 019 511	11 702 648 742
Interest	20 313 646 532	21 107 663 320
Total Overdue Taxpayer Debt	**88 607 601 577**	**87 534 217 484**
Administered Tax Analysis		
Income Tax	35 665 861 751	36 337 034 640
Company	*18 170 391 796*	*17 134 078 597*
Individuals and Trusts	*17 495 469 955*	*19 202 956 043*
PAYE	13 872 593 856	15 540 012 041
VAT	26 998 751 024	26 473 376 228
STC	3 569 635 601	2 668 392 691
SDL	1 374 686 159	1 405 518 362
UIF	2 177 477 627	2 264 532 320
Diesel	416 008 253	49 176 024
Customs and Excise	1 460 143 119	1 354 858 906
Administrative Penalties	2 647 871 337	989 657 135
Estate Duty	361 747 705	390 071 914
Small Business Amnesty Levy	62 825 145	61 587 223
Total Overdue Taxpayer Debt	**88 607 601 577**	**87 534 217 484**
Movement Analysis		
Debt at beginning of year	87 534 217 484	79 477 075 175
New inflow	208 080 159 187	284 378 696 578
Adjustments and collections	-198 822 584 796	-270 270 330 755
Write-offs	-8 184 190 298	-6 051 223 514
Overdue Taxpayer Debt at end of year	**88 607 601 577**	**87 534 217 484**

1.3.6 CREDIT BOOK

At 31 March 2012 the Credit Book stood at R44.6 billion, a decrease of R5.2 billion from the previous year. This decrease was mainly due to improvements in account maintenance and improvements in the VAT risk engine and implementation of VAT Audit eCase.

Table 24: Unaudited taxpayer credits

TAXES: Unaudited taxpayer credits (payables) as at 31 March 2012		
	2011/12	**2010/11**
	R	**R**
Income Tax	-10 787 756 477	-13 677 095 305
Unallocated payments	-16 147 728	-
Income Tax	**-10 803 904 205**	**-13 677 095 305**
PAYE	-4 538 925 093	-6 982 946 855
Unallocated payments	-3 993 683 958	-4 184 578 639
Returns not received	497 774 699	5 269 455 494
PAYE	**-8 034 834 352**	**-5 898 070 000**
VAT	-21 526 914 211	-31 659 506 202
Unallocated payments	-2 662 670 734	-
Returns not received	2 761 343 823	4 612 282 807
VAT	**-21 428 241 122**	**-27 047 223 395**
UIF	-500 438 739	-679 213 322
Returns not received	130 079 121	180 750 579
UIF	**-370 359 618**	**-498 462 743**
SDL	-404 681 278	-571 859 035
Returns not received	110 914 596	155 897 428
SDL	**-293 766 682**	**-415 961 607**
Diesel	-1 160 430 077	-411 851 243
Returns not received	16 413 819	44 290
Diesel	**-1 144 016 258**	**-411 806 953**
STC	-827 288 328	-1 855 868 568
Unallocated payments	-1 656 626 709	-
STC	**-2 483 915 037**	**-1 855 868 568**
Estate duty	-2 102 644 087	-1 671 484 308
Returns not received	2 102 644 087	1 671 484 308
Estate duty	**-**	**-**
Small Business Amnesty levy	-7 513 272	-7 386 041
Small Business Amnesty levy	**-7 513 272**	**-7 386 041**
Total Taxpayer Credits	**-44 566 550 546**	**-49 811 874 612**

Account maintenance issues obscure the true liability within the credit book and significant clean-up work is required on the non-current credit book. Management's focus in the past year had been on the debt book and attention in the future will move to establishing a plan to address old credit balances.

Nevertheless, the implementation of the SARS Risk Engine for PIT, CIT and VAT has assisted in the management of refunds. In particular, these improvements have positively influenced the VAT Credit Book which has brought down the VAT taxpayers credits to around R21.5 billion by the end of the 2011/12 period. This balance represents close to one month's inventory. Additionally, SARS has achieved an improvement in the age profile of the VAT refund book. At the start of the year more than 30% of the book was older than 90 days, compared to the end of the financial year where this category was reduced to less than 15%.

1.3.7 DECLARATION COMPLIANCE

Ensuring that taxpayers complete their declarations completely and honestly to reflect all tax liabilities and only claim for allowable deductions is a key component of compliance. In this regard, the risk engines of SARS perform a fundamental role in identifying those higher risk declarations for further review or investigation (formerly known as "audit"). As part of the risk-based approach used by SARS to identify and investigate non-compliance with tax and customs laws, risk-profiling is applied to all tax entities (individuals and businesses) and across all tax types or tax products – including Personal Income Tax (PIT), Corporate Income Tax (CIT), Value-Added Tax (VAT) and Customs and Excise duties.

As part of the risk-profiling of individual taxpayers which is done solely on the underlying financial risk to the fiscus, SARS uses a variety of sources of information including third party data and risk rules which assist in identifying potential discrepancies between what was declared by taxpayers/traders and what they should have declared.

Where such a potential discrepancy is identified, the declaration is selected for further review. This review process has a number of potential steps depending on the nature of the discrepancy and the information provided by the taxpayer/trader. These steps range from a taxpayer submitting a revised return (or a Voucher of Correction in the case of traders), submitting supporting documents in support of their declaration, or being subjected to a formal audit or a criminal investigation.

In the majority of cases where a discrepancy is identified, the first step is to inform the taxpayer/trader that SARS has identified discrepancies between what they have declared and the information at the disposal of SARS. They are provided with two options to address this discrepancy:

- Submit a revised return/voucher of correction: Where the discrepancy is the result of a genuine error they are provided the opportunity to submit a revised declaration correcting the error. Where the revised declaration corrects the discrepancy, the declaration is then finalised.

- Submit supporting documents: Where the taxpayer/trader believes their declaration to be accurate, they have the opportunity to submit supporting documents to SARS to justify and support their declaration. These documents are then inspected by SARS officials.

This process is referred to as "assurance".

In cases where this "assurance process" fails to adequately address the discrepancy, the return is referred for a formal audit. This process takes various forms depending on the complexity of the tax affairs of the taxpayer and is usually followed up with further engagements between SARS and the taxpayer. Such engagements may occur in person, telephonically or in writing. Where discrepancies have been confirmed, the SARS auditor would then typically issue an additional assessment to take into account income not previously considered, and would usually have an interest consequence and additional tax consequence. In addition, under certain circumstances, penalties may also apply.

The final element of the traditional "audit" process is enforcement investigations – in which taxpayers/traders are investigated for suspected gross evasion and/or other criminal behaviour. Cases may be referred directly for investigation or such investigation may result from the conclusion of the assurance and/or audit process.

1.3.7.1 ASSURANCE COVERAGE

Assurance cases include various types of review interventions on PIT, CIT, VAT, Customs, Excise and PAYE conducted by SARS. The number of PIT assurance review cases completed during the tax year was 914 411 returns with a yield of R2.2 billion. The additional risk rules were added in the 2011/12 financial year, yielded R270 million in SARS's favour.

The introduction of a new VAT risk process during the year (May 2011) resulted in 304 199 assurance reviews completed yielding R11.7 billion in SARS's favour.

A similar CIT process was introduced later in the year (November 2011) resulting in 7 789 reviews completed in the 2011/12 financial year resulting in a yield of R564 million.

Whilst automated online risk screening of PAYE declarations has not been implemented as yet, submissions are risk screened and referred for review or audited after filing. In the 2011/12 financial year, we have conducted investigations into 10 113 employers focusing on various anomalies within the 2011/12 IRP5/IT3(a) Certificates.

In total during the 2011/12 year SARS concluded 1 236 512 assurance reviews, constituting coverage of 8.16%.

1.3.7.2 AUDIT COVERAGE

Since the introduction of the revised audit architecture in which traditional "audits" were divided into assurance and audit, these changes have yielded productivity improvements in the audit area with a total number of 26 612 audit cases completed against the target of 14 900, an achievement of some 79% above target within only nine months.

This financial year also saw an improvement in the audit hit rate, with an achievement of 83% against the target of 75%. The total audit assessments amounted to R4.7 billion, consisting of revised assessments to an amount of R4.2 billion and savings through the reduction of assessed losses or refunds of R491 million.

Also attributed to the new architecture changes, the average assessment per auditor and per case for the 2011/12 financial year was R11.7 million and R157 994, respectively, as compared to R7.1 million and R72 124 for the previous year.

Debt collected by Audit amounted to R1.4 billion for the 2011/12 financial year. This is R524 million more than collected the previous year. A total of R400 million was collected in the month of March 2012 due to new collection initiatives introduced.

Forensic audits completed in the financial year resulted in assessments of R1.5 billion, relative to a target of R450 million (cash collections amounted to R112 million). The complex nature of forensic audit cases often results in significant time being spent to finalise these cases. Included in the assessments of R1.5 billion is an amount of R164 million which related to assessments raised from forensic audits carried out on significant cases and High Net-Worth Individuals.

1.3.7.3 TAX AND CUSTOMS ENFORCEMENT INVESTIGATIONS

Where SARS discovers indications of intentional non-compliance in respect of legislation administered by SARS, this division embarks on a process of legally gathering evidence to determine if a crime has or is being committed, determine and prove liabilities, facts in dispute and collection of admissible, quality evidence so as to institute the most appropriate punitive action provided by law:

- Where prosecution in a criminal court is sought, to present the best case possible to a criminal court

- Where the punishment is of a civil nature and is challenged, to present the best case possible to a civil court

Apart from focusing on transnational organised crime, smuggling, and trade in prohibited goods relating to priority industries it also aims to fulfil an auxiliary support service to the law enforcement community in order to reduce levels of crime (statutory obligations e.g. SAPS Act, POCA, Drugs Act and international obligations).

For the year under review a total of 646 investigations were completed and handed over to the National Prosecuting Authority. 315 criminal prosecutions resulted in the imposition of fines amounting to R8 163 200 and 403 years suspended sentences and 112 years effective imprisonment by the courts.

1.3.7.4 VOLUNTARY DISCLOSURE PROGRAMME

The Voluntary Disclosure Programme that ended on 31 October 2011 attracted 17 743 applications and resulted in the collection of approximately R1.5 billion in taxes. It also provided useful insights into areas of non-compliance that will receive focused attention in future. This includes the under-declaration of income such as rental and foreign income and capital gains, non-declaration of gains from share incentive schemes by corporate executives and the non-declaration of benefits granted to foreign persons employed in South Africa. Voluntary disclosure is set to become a permanent feature as part of the Tax Administration Bill.

1.3.7.5 FOCUS ON VAT REFUND FRAUD

This first phase of the re-engineering of the VAT process has yielded remarkable results: the collective yield, as a result of taxpayer revisions and audit interventions has resulted in VAT claims being revised and lowered by R11.6 billion for the 2011/12 financial year. To further leverage these successes, SARS has introduced a new category of VAT verification cases that has enabled SARS to increase the coverage of cases identified for verification.

In June 2011, a new focus was placed on the management of VAT refunds at Lebombo and Beitbridge border posts. The new process was subsequently implemented in August 2011 at all land border posts (excluding the borders between RSA and Lesotho due to the VAT refund agreement between the two countries). The benefits of the new refund system are as follows:

- Cheques are no longer issued at land border posts thus eliminating the long queues. This process has improved the efficiency of the movement of travellers through the ports

- The opportunity for endorsing fraudulent invoices has been minimised.

Table 25: International Departure Points

International Departure Points	VRA Value		
Departure Point	**2009/10**	**2010/11**	**2011/12**
Beitbridge	R 159 071 051	R 117 769 167	R 49 287 419
Lebombo	R 120 856 427	R 135 139 428	R 34 611 587
Total	**R 279 927 478**	**R 252 908 595**	**R 83 899 006**

As a result of the new processes there has been a drastic decrease in the number of claims at various border posts; the value of the VAT refund claims for the two border posts above have declined from R279.9 million in 2009/10 to R83.9 million in 2011/12, representing a 70% decline from the 2009/10 levels.

1.4 INCREASED EASE AND FAIRNESS OF DOING BUSINESS WITH SARS

The SARS Compliance Model – backed by international experience – holds that compliance will increase through making it easier to comply. For this reason service enhancements are a critical driver of increased tax and customs compliance. Equally, reducing the cost of compliance has a direct positive impact on supporting economic growth and development, trade facilitation and thereby job creation. In this section we report on key activities and initiatives during the year in review which contributed to increasing the ease of meeting one's tax and customs obligations and other measures to promote trade and business.

1.4.1 CUSTOMS MODERNISATION

In 2011/12, the Customs Modernisation programme entered its third year with continued attention paid to cargo declaration processing, inspection management, and border arrival and exit management, focusing on fundamental changes in Customs operations and the local supply chain process. The goal has been to achieve "step change" improvements in operational efficiencies and effectiveness for both Customs and traders.

The most significant deliveries included:

- Electronic supporting document processing through e@syDocs and scanning at SARS facilities
- Electronic documentary and physical inspection and case management process including mobile inspection capability
- Implementation of Automated Cargo Management (ACM) for the receipt and processing of electronic manifest data
- Enhanced Customs Risk Engine (CRE) capability to include Vouchers of Correction and indicative reference pricing
- Integration of ACM and declaration processing data within the CRE to ensure single intervention using aggregated data, as well as acquittal of goods cleared
- Border arrival and exit management process, including mobile border exit capability

Going forward, the roll-out will be focused on the Botswana, Lesotho, Namibia and Swaziland (BLNS) borders. Pilots have successfully been run at the Kopfontein and Ramatlabama borders and the lessons learned will be incorporated into the solution and roll-out going forward. This includes:

- The replacement of the existing systems with a new case management system. This system went live, introducing case management of all Customs inspection cases as well as an electronic supporting document process for traders. This means that for all entries submitted during working hours the documentary processing is done at four centralised hubs before the consignment arrives at the border. This process is supported by the electronic submission of supporting documents enabled by the e@syDocs, branch and bulk scanning facilities
- The introduction of hand-held devices to carry out physical inspections. An enhanced inspection process, with declaration processes occurring at four centralised hubs and the introduction of a mobile solution to assist Customs officials to carry out physical inspections. This is expected to substantially reduce the time spent on physical inspections and minimise human error
- An electronic release system that reduces the use of paper and authorisation stamps
- No entry of commercial cargo into the port without pre-clearance

- A new gate pass system targeted at commercial vehicles

These deliveries have established a new operational and technological platform and placed SARS Customs in a position to move onto the next phase of Modernisation, that being the replacement of the legacy back-end systems with the new Interfront Customs Management System.

1.4.2 INTERNATIONAL FRONTIER TECHNOLOGIES (INTERFRONT)

interfront
Smart Systems. Better Borders.

Interfront is a wholly owned subsidiary of the South African Revenue Service. However, its business operation functions independently through its own board of directors. The year under review marks Interfront's second anniversary and a further step in its ongoing development as a company that has growing value for its shareholder, clients and staff.

Interfront was incorporated in February 2010 to house acquired intellectual capital to use as a foundation for a world class Customs IT solution for South Africa and to market it to other potential users. Various agreements were concluded at the time, which provided inter alia for the establishment of Interfront as a separate entity, financial support by its shareholder throughout the development phase and sales agreements with two value-added resellers.

In the year under review, Interfront has sought to stabilise the business and to take the first steps toward putting sound structures and mechanisms in place. To this end, Interfront is pleased to report on a number of developments and successes which include the following:

- The launch of the Interfront brand
- Strengthening governance and leadership
- Focused alignment with shareholders and key role players
- Analysis of risks and thorough strategic planning
- Re-organising operations to address production challenges
- The completion of the backlog and achievement of quality and timely deliveries
- Enhancing policies and internal controls
- Developing an appropriate product strategy

Interfront is in the process of preparing for the replacement at SARS of most of the SARS ageing legacy systems as a major part of the Customs Modernisation programme. Delivery of a part of the solution, the new Tariff Management System (TMS), to prepare for the replacement of the outdated Loose Leaf Tariff (LLT) system, assisted SARS to meet the World Customs Organisation (WCO) international 2012 Tariff Amendments. The new system has the ability to create, update and maintain all tariffs in the tariff book as well as produce the tariff data that is published in the Government Gazette.

The year ahead will be very challenging as SARS prepares for the switch-over from its legacy systems to the Interfront platform. This will impact the core processing of all customs transactions. Interfront is assisting SARS with reducing the risk of the conversion by developing tools to compare the data and results from intended parallel runs between the Interfront and legacy systems. This is a major technical undertaking for both Interfront and SARS.

1.4.3 TAX MODERNISATION

The primary objective of the Modernisation Programme in 2007 was to transform the tax process from a complex, paper-based and labour-intensive process to a simplified, automated and electronic one. Substantial progress has been achieved and this has resulted in dramatic improvements in return processing turnaround times, service levels and significant efficiency improvements.

1.4.3.1 TAX SEASON 2011 FOR INDIVIDUALS

SARS has noted encouraging growth in the levels of tax compliance in the country with a new record of 4.9 million income tax returns submitted during the 2011 Tax Season and 5.2 million by the end of the calendar year. The total number of returns received between 1 July and 25 November 2011 was 23% higher than the previous year. The total included 3.688 million returns from individuals for the 2011 tax year – an increase of 15.5% compared to last year when 3.193 million individuals submitted their 2010 returns by the deadline. In addition, SARS received 1.09 million outstanding tax returns from previous tax years, 61.7% more than the 679 544 outstanding tax returns received in 2010.

After just five years, the migration from paper or manual returns to electronic submission – via eFiling or at a SARS branch – is almost absolute within 99.15% of all returns submitted electronically in 2011. Only 32 071 returns (0.85%) were submitted on paper compared to 123 674 in 2010. In addition, SARS assisted almost 1.5 million taxpayers at branch offices to complete their returns.

The adoption of electronic submission has enabled SARS to further improve its turnaround times with 98.36% of income tax returns assessed with 24 hours (up from 93.6% in 2010), demonstrating the huge benefits of the Modernisation Programme through the increased use of technology and automation.

Faster turnaround times in assessing tax returns also enabled SARS to more rapidly issue income tax refunds of R12.67 billion (11.45% more than in 2010), which are a direct contribution to the country's economy. During the year, SARS paid 85.44% of income tax refunds within 72 hours of the return being submitted, compared to 74.28% in 2010. The Tax Season has also become an important indicator of the levels of tax awareness and compliance in the country and SARS is very encouraged by this year's response with on-time filing rising to 83.16% (up from 80.72% in 2010).

1.4.3.2 PAYE MODERNISATION

In 2011/12 changes made to the PAYE reconciliation submission process for the Employer Filing Season were minimised in order to stabilise the PAYE processes after reforms in the previous period. The improvements that were made included:

- The income tax registration process previously made available to employers to enable them to complete registrations of new employees not yet registered for income tax, was extended to enable submissions of multiple registration applications at a time

- Efficiency improvements were also made to the manner in which SARS issues physical EMP501 and IRP5 returns for those employers who are unable to file electronically. These forms are now issued on request, pre-populated with the employer information and issued to the taxpayer via post in order to ensure that the manual forms received can then be efficiently processed via the bulk scanning solution in the SARS processing centres

- Submissions from larger employers where an error is encountered will only result in the individual IRP5/IT3 (a) certificates that have failed validation being rejected by the SARS systems and not the entire reconciliation submission. The reasons that those line items failed are returned to e@syFile™ Employer system in order for the employer to make the necessary corrections before completing a resubmission of the rectified certificates

1.4.3.3 MODERNISATION OF CORPORATE INCOME TAX

While the primary focus of the modernisation programme over the past four years has been on PIT, a number of important modernisation deliverables were implemented for corporate income tax during the 2011/12 year. Many of the principles that were successfully applied to the other tax types were used in setting up the risk engines and audit business processes for CIT.

A number of important modernisation deliverables were implemented that included:

- A new Corporate Income Tax risk assessment engine
- New return verification and assurance audit business processes aligned to those introduced for VAT earlier this year, and supported by the SARS Service Manager electronic case management solution
- The integration of PAYE filing, VAT filing and Customs declaration information into the CIT risk assessment process through a supplementary declaration (IT14SD) which companies will need to submit where selected by the CIT risk engine for return verification and/or audit
- A "Request for Correction" process for CIT to enable taxpayers to amend their declarations, where allowed by SARS business rules
- The introduction of a CIT tax calculator to display tax calculation results to SARS compliance and audit

The roll-out of Corporate Income Tax (CIT) on Service Manager (SM) has introduced an end-to-end tracking and management system for the completion of CIT audit cases. SM now enables the users to complete a case end-to-end on a single system as a component of the revised declaration process. The implementation of the SARS risk engine for CIT, together with the re-engineered return verification and audit business processes represents a significant shift in SARS's capability to manage compliance for this tax, and it is anticipated that this will establish a foundation for SARS to improve its CIT audit capability going forward. Once an IT14 declaration has been received, it passes through the risk engine and based on the risk rules, a case for an operations audit case, limited scope audit case, or full scope audit case is created on the SARS enterprise case management platform.

The IT14SD, a supplementary declaration, was introduced as part of the CIT modernisation, and enables the taxpayer to provide additional supporting information using a structured method that can then be further interrogated by the SARS risk engine before creating a case for SARS intervention. This model increases SARS's reach (coverage ratio) with the same human resource capacity, and is proving successful and therefore being considered for other tax types in the future.

This re-engineered approach was implemented at the end of October 2011. The implementation of the automated risk screening platform, using statistical trends from taxpayers' historical behaviours, enabled 7 894 corporate returns to be audited in the balance of the 2011/12 financial year resulting in a yield of more than R624 million.

The average turnaround time for the assessment of CIT equates to 2.92 working days for the year under review. This is a decrease of almost two days compared to the 2010 year. The implementation of the SARS risk engine for CIT, together with the re-engineered return verification and audit business processes represents a significant shift in SARS's capability to manage compliance for this tax and, as with PIT and VAT, it is anticipated that this will establish a foundation for SARS to improve its CIT audit capability.

1.4.3.4 TRANSFER DUTY

During the year, a fundamental redesign of the transfer duty process and technological solution was implemented. This includes the introduction of a risk engine to evaluate transfer duty declarations to identify applications warranting further attention, and allowing automated processing of those applications assessed as low risk. The service improvements have been dramatic and since implementation, the transfer duty turnaround time has reduced five-fold from an average of ten business days per application to only two business days.

The new process also minimises the number of applications declined for incorrect reasons to prevent unnecessary reworking of resubmitted applications, and since implementation the number of applications declined has been reduced by 63%.

1.4.3.5 MODERNISATION OF VAT

In 2011, the VAT System underwent significant modernisation and demonstrated improvements in both processing efficiency and risk management of potential VAT revenue leakage. The VAT processes have been enhanced in a number of ways of which the following are some of the highlights:

- Re-engineering the VAT screening process and improving the effectiveness of SARS's interventions by realistically matching case workload to SARS capacity

- Utilising similar SLA processes previously introduced in PIT to manage work volumes to ensure that high-risk cases are prioritised over medium and low risk cases and to manage the interest incurred on outstanding VAT audit cases

- The anticipation is that the implementation of these re-engineered processes, through the accountability and traceability introduced, has established a sound platform for SARS to grow its VAT audit capability in coming months and years, as well as substantially improving VAT refund turnaround time

As part of the VAT modernisation currently in progress, the processing of VAT refunds was enhanced by extending the capabilities of the VAT risk engine implemented earlier this year. Turnaround time on refunds improved dramatically: 46% of refunds were paid with 48 hours in the 2011/12 financial year, compared to 17% in the previous financial year. The remainder of the refunds (224 193) had an average turnaround time of 60.46 days. SARS continues to focus on improving this turnaround time. However, two key reasons contributing to the turnaround time for stopped cases are delays from the taxpayer in submitting supporting documents and outstanding returns. In order to provide improved visibility on the causes of the turnaround time for stopped cases, the tracking will be enhanced to separate time spent by SARS waiting for taxpayer supporting documentation and outstanding returns.

1.4.4 IMPROVEMENT IN ELECTRONIC UPTAKE IN FILING, DECLARATION AND PAYMENT SUBMISSIONS FOR ALL TAX TYPES

One of the major strides towards increasing the ease and fairness of doing business with SARS is the move from manual paper based processes to electronic digital and self-service channels, resulting in quicker processing with fewer errors. The increased uptake in electronic filing, declaration, and payment submissions by taxpayers has hugely impacted the way taxpayers interact with SARS.

For the 2011/12 year the percentage uptake of electronic channels across different tax types with reference to filing, declaration and payment submissions, stands at 94%. This includes PIT, CIT, VAT, PAYE, EMP501s, IRP6s, and Customs declarations. Comparing these figures to those from the 2006/07 year, shows a total increase in electronic submissions from 20% in 2006/07 to 94% in 2011/12 (See Table 26).

When focusing on return submissions only, PIT stands at 99% electronic uptake of close to six million returns, CIT 94% of 781 459 returns, VAT at 92% of 3 075 157 returns and PAYE at 87% of 4 815 466 returns.

Table 26: Trade Volumes and Electronic Submissions

Tax Type	2006/07		2011/12	
	Total Volumes	% Electronic Submissions	Total Volumes	% Electronic Submissions
PIT	4 299 820	3%	5 992 637	99.2%
IRP6	3 244 814	12%	2 596 071	97.6%
CIT	672 387	<1 %	781 459	94.4%
PAYE	4 162 027	<1 %	4 815 466	87.1%
VAT	3 851 732	<1 %	3 075 157	91.8%
Declarations	5 006 725	38%	3 753 784	98.3%
Payments	6 884 392	44%	13 113 326	92.3%
TOTAL	**28 121 897**	**20%**	**34 127 900**	**93.9%**

1.4.5 TAXPAYER SERVICE QUERIES

Taxpayer service queries may originate at any point in the registration, filing/declaration and payment processes within SARS. Most of these taxpayer queries are addressed by the Branch offices or the Contact Centres. When taxpayers with existing case numbers call in to follow up on the progress of their cases, their calls are directly routed to the National Contact Centre consultants. This team then facilitates the speedy resolution of these queries by engaging the relevant specialised business resolution areas to correctly refer previously logged cases to the relevant functional departments. SARS has also made changes to the escalation process to ensure that follow-up calls are escalated to a higher level than the original level that handled the call. A new tiered escalation system was introduced in January 2012 to enable a client who has repeat calls on the same matter to be automatically escalated. At the highest level, the calls are escalated to a team of experts situated centrally at SARS Head Office for resolution. In the case where these queries are not resolved to the satisfaction of the taxpayer, the taxpayer has the option of reporting these queries to the SARS Service Monitoring Office (SSMO). For the year under review it was found that 70% of cases reported to the SSMO came from Tax Practitioners. For 2011/12 the SSMO has received a total of 14 371 cases through communication channels such as telephone calls, emails and faxes. This number of queries constitute a decrease of 11.19% from 2010/11. SARS has been building relationships with various external stakeholders to enhance the process of addressing complex and common issues experienced. This facilitates the escalation process and the timeous finalisation of issues. Regular and ad hoc meetings are held with the representative bodies of the accounting profession, the larger accounting firms, Payroll associations, The Law Society, The Fiduciary Institute of South Africa, the Master's Office and various industry bodies.

1.4.6 EXPANDING OUR FOOTPRINT

As part of the Branch Operations Footprint Strategy to encourage greater visibility and accessibility to taxpayers, new branches were established and additional points of service as well as Mobile Tax Units (MTU) were deployed in strategic areas.

Four new branches were established and another four refurbished successfully this year – the new branches were in Brooklyn (Pretoria) (dedicated to practitioners), Doringkloof (Centurion), Bethlehem and Port Shepstone; branch relocations/refurbishments included Nelspruit, Klerksdorp, Lebowakgomo and Richards Bay.

Three Mobile Tax Units (MTUs) were procured in the 2010/11 financial year and tested extensively for independent functioning in remote areas. The MTUs were first deployed in August 2011 and have since been operational in the rural areas of the Eastern Cape, Free State, KwaZulu-Natal, Limpopo, Mpumalanga and the Northern Cape. In November 2011, during the peak period of filing season for individuals, the MTUs covered 51 areas, attended to 8 741 taxpayers who submitted 7 327 returns.

1.4.6.1 EDUCATION

SARS provided free tax education workshops and seminars at most SARS branches across the country to provide taxpayers with information on various tax types administered by SARS.

From 1 April 2011 to 31 March 2012, 4 185 workshops and seminars were conducted and attended by 65 100 taxpayers. Tax products presented include, among others, Income Tax, Pay-As-You-Earn, Provisional Tax, Small Business Turnover Tax and VAT. Tax clinics were also run at branch offices to assist companies and individuals with technical queries. In addition, SARS exhibited at various conferences and gatherings.

SARS has also embarked on a programme to improve tax morality and tax knowledge among future taxpayers. During the last financial year 100 schools were visited where students were educated on tax morality and tax knowledge. Similarly, tax education sessions were held at various tertiary institutions.

1.4.6.2 WORKPLACE VISITS AND POINTS OF SERVICE

SARS conducted over 5 000 workplace visits for PAYE interventions at companies and government departments in urban and rural areas to assist employers and employees with tax queries, registration, filing returns and other tax compliance matters. This on-site assistance and service is aimed to improve the ease of doing business with SARS. Taxpayers were assisted at various Points of Service (POS). There were 7 613 POS during 2011/12, both during filing season and outside of filing season. These POS interventions yielded 120 506 income tax submissions and 16 847 new income tax registrations.

SARS also set up POS at shopping malls and other strategic places to further extend these interventions to taxpayers.

1.5 INCREASED COST EFFECTIVENESS, INTERNAL EFFICIENCY AND INSTITUTIONAL RESPECTABILITY

In pursuit of our key objectives, SARS also seeks to operate as efficiently and cost-effectively as possible, working to enhance maximum productivity from our limited resources. In this respect, the Modernisation Programme and other key initiatives have been both for the benefit of taxpayers and traders as well as our own internal efficiencies, including by freeing up SARS resources from mundane "paperwork" to focus on expanding our outreach, service, education and enforcement activities in pursuit of greater compliance. Many of these aspects have been reported on elsewhere in this report and we will not repeat them here. A key measure of cost effectiveness is the cost of collection which we report on in this section along with specific internal efficiency actions, including details of our human capital management and our co-operative administration with domestic and regional counterparts.

1.5.1 COST OF REVENUE COLLECTION

The cost of tax revenue collection is an important indicator of the efficiency of revenue authorities and is used for comparative purposes for benchmarking countries. This ratio is calculated by dividing the cost of internal operations by the total tax revenue. South Africa is in line with the international benchmark of 1% for this ratio. Over the past six years, the cost to revenue collection ratio varied between a low of 0.98% (2007/08) to a high of 1.17% in 2009/10. For the 2011/12 financial year the ratio is 1.11% (see Table 27).

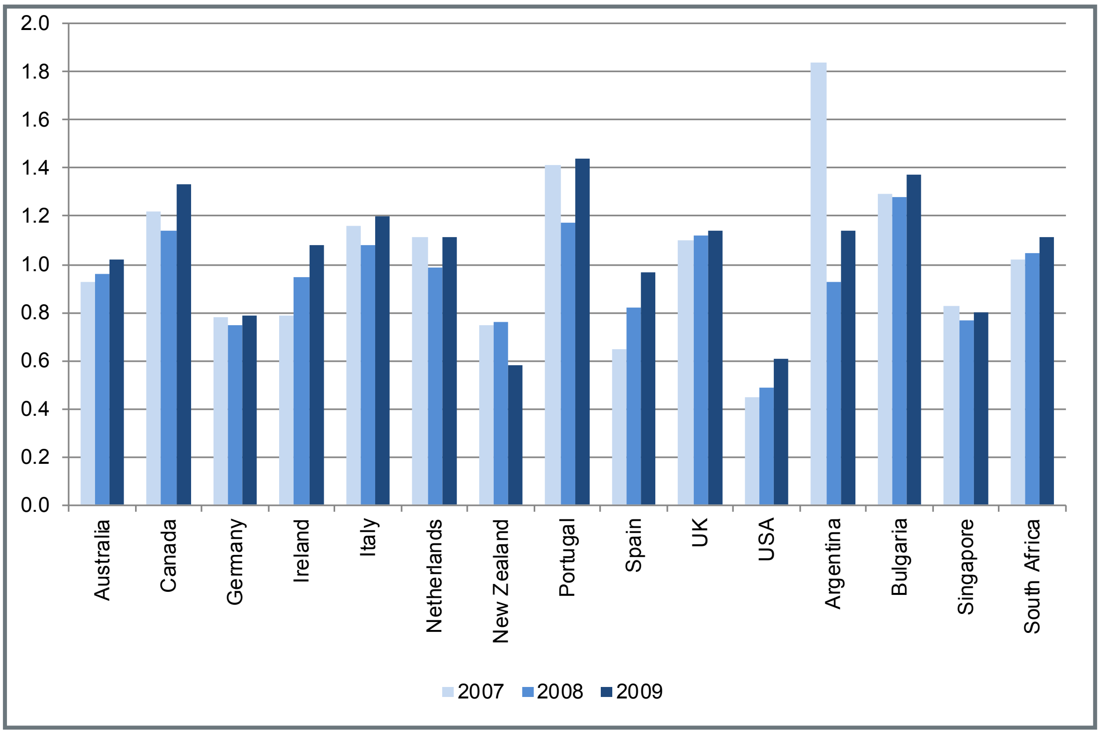
Table 27: Cost of revenue collection – 2006/07 to 2011/12

Year	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	R million	R million	R million	R million	R million	R million
Tax revenue	495 549	572 815	625 100	598 705	674 183	742 650
Operating cost	5 156	5 615	6 511	7 032	7 426	8 227
	%	%	%	%	%	%
Cost to tax revenue ratio	1.04%	0.98%	1.04%	1.17%	1.10%	1.11%

This ratio does, however, not take into account the fact that SARS not only collects tax revenue but also social security funds on behalf of other institutions such as the RAF and UIF, as well as some non-tax revenue such as the MPRR. If these are taken into account the cost to revenue ratio improves further.

In the 2010 OECD's edition of Comparative Information Series, the total revenue collections (i.e. administered revenue) is used to calculate the cost of revenue ratio. Most countries' ratios range around the international benchmark of 1%, with the USA at a low of around 0.5% and Canada, Portugal and Bulgaria ranging around 1.2%. If administered revenue is used instead of tax revenue to calculate South Africa's cost of revenue, the 2011/12 ratio drops to 1.06% as opposed to 1.11% if tax revenue is used. Graph 3 shows a comparison of selected countries' ratios from 2007 to 2009.

Graph 3: Comparison of aggregate administrative costs to net revenue collections



Source: *OECD: Comparative information series (CIS) 2010.*

1.5.2 CONTACT CENTRE EFFICIENCIES

New systems have been introduced in SARS Contact Centres to:

- Reduce operational support and system administration costs
- Follow best practices for optimum performance, maintainability and reliability
- Allow for greater flexibility with regard to functionality and future development
- Provide platform scalability

One of the key areas of focus this year has been to enhance the measurement in Contact Centres. Functionality has also been developed to enhance the agent and call monitoring for quality assurance purposes. The goal is to enable every SARS employee to provide an excellent and efficient service to taxpayers and traders. By identifying performance gaps and the causes of these gaps and implementing appropriate remedial actions and continuous improvement initiatives, consistent and improving levels of service amongst SARS's four regional Contact Centres can be achieved. This quality assurance process is one of the key processes SARS employs to monitor and improve services rendered to taxpayers and traders.

In addition, recognising the importance of further continuous improvements to productivity together with the need to manage the debt book balance downwards, an opportunity in the low value debt space (under R50 000), was targeted.

In December 2011, the "Blended Solution" was implemented and the Remote Virtual Outbound capability in February 2012. This capability enabled the Contact Centre and Branch Operations agents, when they were not busy with incoming calls or taxpayers, to make outbound calls in addition to their normal inbound traffic. Contact Centre agents and branch staff make calls to taxpayers with low value outstanding debt encouraging immediate payment and advising them of the implications of non-compliance. This joint effort enabled the Contact Centres Branch Operations to make calls to taxpayers with outstanding debt during non-peak periods, and resulted in more than 750 000 calls made and R660 million revenue collected in the last quarter of 2011/12.

1.5.2.1 CUSTOMER FEEDBACK SURVEY

During this year enhancements to the current Customer Feedback Survey were implemented. This enhancement enables callers to leave a short recorded voice message after completion of a structured survey. This voice message is linked to the specific survey and stored for review. This enhancement provides the callers with the opportunity to provide more information on their experience with the Branch Office or the Contact Centre. This also provides SARS with a better view of what the visitors/callers are experiencing so as to improve service standards.

1.5.2.2 PROCESSING CENTRES

In 2011 numerous improvements were implemented in the processing centres to enable improved turnaround time for posted and manual documents. At the end of March 2011, the turnaround time achieved was 75% of the documents within one day, 16.52% between two and four days and 1.69% over ten days. At the end of March 2012, SARS improved the turnaround time so that 98.92% of documents were processed within the same day and 99.68% were processed within one day. No document took longer than three days to be processed.

1.5.3 CO-OPERATIVE ADMINISTRATION

1.5.3.1 AFRICAN TAX ADMINISTRATION FORUM

Following its election as the host country at the inaugural ATAF conference in 2009, SARS has continued to be the infrastructure of the organisation through the provision of the secretariat function and supporting staff. SARS also provides the technical expertise through its employed field advisors at the conferences hosted by the organisation. For this year, the following events were held:

- Joint ATAF – Korea Conference on Domestic Resource Mobilisation: "Challenges to African Tax Policy and Administration" in Cape Town

- "International and Domestic Aspects of Tax Fraud, Evasion and Avoidance" was the theme for the first ATAF General Assembly Meeting, held in Mauritius

- ATAF hosted a prestigious Side Event at the fourth High-level Forum on Aid

- Effectiveness (HLF4) in Busan, Korea in December 2011. The organisation continues to receive international recognition and grows through the representation at various conferences all over the world

South Africa ratified the Agreement of the African Tax Administration Forum (ATAF) and deposited the Instrument of Ratification with the Forum's interim Secretariat, thus confirming its commitment to building efficient and effective tax administration in Africa.

It is anticipated that ATAF will be granted international recognition during 2012 and will become an independent international institution with the secretariat hosted in South Africa.

1.5.3.2 OTHER INTERNATIONAL ENGAGEMENT

South Africa's expansion in global and continental relations has resulted in a greater need for international technical co-operation that, in turn, requires an expanded international role and a proactive approach by SARS. This is reflected in the further development of its international relations work over the course of the past financial year.

Multilaterally, particular emphasis was placed on the role of South Africa within the WCO, the OECD, Global Forum on Transparency and Exchange of Information for Tax Purposes and IBSA, with similar importance being placed on the regional work in the structures of the ATAF, SADC and SACU.

In 2011/12, SARS signed Memorandums of Co-operation with the Botswana Unified Revenue Service, the Dutch Tax and Customs Administration (DTCA), the Seychelles Revenue Commission and the Swaziland Revenue Authority. These agreements serve as the foundation for close co-operation and sharing of expertise between administrations.

In keeping with its commitment to developing tax and customs capacity on the continent, SARS continued to provide assistance to other African administrations in the form of workshops, study visits and attachments. As part of its outreach and capacity building initiatives, SARS introduced a Capacity Building Programme under which it hosted events on taxation in the mining sector, customs modernisation and investigation and audit. SARS also hosted training groups from the Indian Revenue Service and benefited from the short term secondment of an expert from the DTCA.

SARS was elected in 2011 as the deputy Vice Chair of the WCO Eastern and Southern Africa region and as regional representative to the WCO Policy Commission.

A significant part of SARS's engagement with the OECD over the past year was the appointment of Commissioner Magashula as Co-Chairperson of the OECD's Task Force on Tax and Development. This is the first time that an OECD member country and a non-OECD member country have chaired an OECD forum that deals specifically with tax and development and their importance to developing countries.

Increased transparency and exchange of information in tax matters have featured prominently on the international agenda, including that of the G20 of which South Africa is a member. SARS also actively participated in the Global Forum on Transparency and Exchange of Information for Tax Purposes. South Africa confirmed its intention to join the Multilateral Convention Mutual Administrative Assistance in Tax Matters by signing the Protocol to the Convention during the 2011 G20 Summit in Cannes, France.

As another measure, the IBSA Revenue Administration Working Group announced the launch of the IBSA Centre for Exchange of Tax Information during its annual meeting in October 2011.

1.5.3.3 ASSISTING SACU TO BUILD A PREFERRED TRADER PROGRAMME

SARS's interaction with the South African Customs Union (SACU) and the Trans-Kalahari Corridor (TKC), has led to the confirmation of an official SACU strategy and policy by the SACU Heads of Customs. This confirms a common SACU Preferred Trader approach, based on the adoption of the SARS Preferred Trader. This journey was endorsed by the WCO.

SARS assisted SACU to develop a SACU PT implementation plan and journey. SARS has also identified training and development assistance plans for SACU member states. These agreements, initiatives and relationships have created a solid base that should enable the SACU countries to complete the design of their own proprietary PT programmes and pilot these with SARS's assistance in 2012.

1.5.3.4 ASSISTING OTHER GOVERNMENT DEPARTMENTS

Co-ordination and collaboration across different parts of government is a key enabler for cost-effective improvements in service delivery to our citizens. In this regard, SARS is involved in collaborative efforts with other government agencies to leverage the knowledge we have gained and the investments government has made in SARS to benefit the wider public sector and thereby our citizens. Among the state institutions SARS is working with to achieve greater efficiencies are the Department of Home Affairs, with whom SARS has entered into a partnership to assist with their modernisation process, the Department of Labour Compensation Fund, the Government Pension Administration Agency and jointly with the DTI (including the Companies and Intellection Property Commission), National Treasury and Stats SA on the development of an integrated business register for South Africa.

A further important area of co-operation is in border management and control where SARS chairs the Border Control Operations Co-ordinating Committee (BCOCC). We are also the deputy chair of the Inter Agency Clearing Forum (IACF) which was born out of the preparations for the FIFA 2010 World Cup and has as its main objective the enhanced co-operation and functioning of agencies and government departments at South Africa's ports of entry.

1.5.4 HUMAN CAPITAL MANAGEMENT AND LEADERSHIP

1.5.4.1 FULLY INTEGRATED OPERATING MODEL AND VALUE-BASED LEADERSHIP

Implementation of the operating model revealed a number of challenges and opportunities including segmentation and the need for a centralised enforcement portfolio to co-ordinate, oversee and take accountability for all enforcement activities (both tax and customs) within SARS. This resulted in a shift from segmentation towards a refinement of the compliance philosophy within the existing operational structures to address diverse customer segments.

SARS has also launched a value based leadership programme. Interventions have been deployed in the form of the integrated Leadership Effectiveness Advance Programme (LEAP), which include the Making Great Leaders (MGL) initiatives, Leadership Effectiveness (LEI) assessments and coaching programmes. Work has also started to define a desired SARS culture and to map the journey to the desired state.

1.5.4.2 STREAMLINED GOVERNANCE FRAMEWORK TO REDUCE UNNECESSARY LEVELS AND IMPROVE PERFORMANCE MANAGEMENT CAPABILITY

SARS has formed strategic internal partnerships and compiled an improved Delegation of Authority (DOA) to address the levels of approvals aligned to People Management. This approach aligns with the aim to shift from gate keeping towards a risk based management approach.

A revised performance management system is intentionally separated from the incentive scheme since an administrative perspective has been introduced and accepted by key stakeholders. Its premise is towards cascading organisational strategy into individual operational targets and ensuring that substantive performance discussions have taken place and developmental interventions are implemented rather than incentive focused interventions. Essentially, it sets the tone for a high performance culture. Incentives are purely positioned at an outcome level and will form an integral part of the broader Employer Value Proposition.

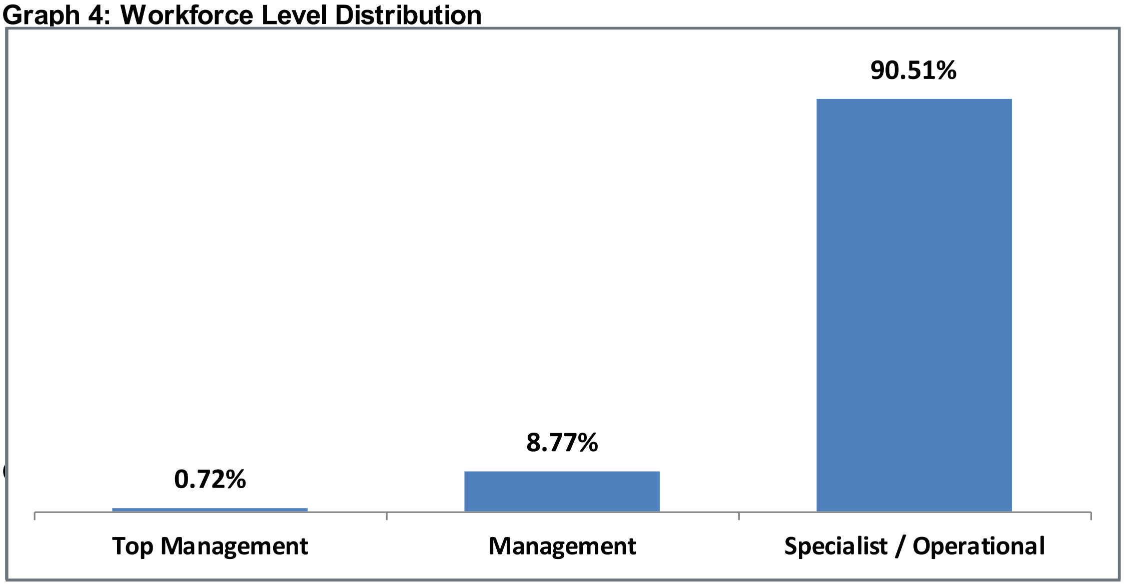
1.5.4.3 IMPROVE ORGANISATIONAL CULTURE AND EMPLOYEE ENGAGEMENT

Based on the annual staff engagement survey, the trend for the past six measurement cycles depicts a positive growth trend in overall employee engagement levels. During the year in review an improvement of 2.9% has been realised. This improvement can be directly linked to the enhancement and implementation of employee engagement initiatives in terms of care and concern, operating model re-alignment, leadership development, the performance recognition system and employee wellness programmes.

1.5.4.4 SARS WORKFORCE PROFILE

SARS's employee headcount at the end of March 2012 was 14 944 employees (excluding 332 temporary employees) with the bulk of the workforce at specialist and operational levels as illustrated in Graph 4. The majority of SARS employees (63.91%) are between the ages of 30 and 45, whilst 15.72% of employees are younger than 30 years. Overall, the current workforce has an average tenure of 11 years in SARS.

Graph 4: Workforce Level Distribution



With 625 employees externally appointed during this period, the SARS headcount remains fairly stable with an overall decline of only 23. Attrition was also reasonably stable and the resultant outcome in net staff turnover is -0.15%, as illustrated in Table 28.

Table 28: Net Staff turnover 2011/12

External Recruitment	Attrition	Recruitment Rate	Attrition Rate	Net Staff Turnover %
625	648	4.2%	4.3%	-0.2%

Table 29 provides comparative staff numbers at the end of each financial year over the past five years.

Table 29: SARS Employee Headcount

	2007/08	2008/09	2009/10	2010/11	2011/12
Permanent Employees	14 548	14 751	14 738	14 967	14 944
Temporary Employees	496	556	525	329	332
Employees Total (incl. Temps)	**15 044**	**15 307**	**15 263**	**15 296**	**15 276**

1.5.4.5 EMPLOYMENT EQUITY AND WORKPLACE DIVERSITY

SARS made progress towards ensuring overall Black, gender and disability representativity. This crucial matter forms an integral part of recruitment and promotion decisions in respect of all employees in the leadership category on the basis of available opportunities and the broader employment equity plan.

The table below indicates the overall workforce profile relating to employment equity in each of the occupational levels.

Table 30: Workforce Profile relating to Employee Equity

Workforce Profile with regards to Employment Equity											
Occupational Level	Designated*							Non Designated*			Total
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W		M	F	
Top Management	5	4	3	3	2	1	2	9	1		30
Senior Management	312	69	112	208	38	74	255	316	3	2	1 389
Professionals	505	93	89	440	95	90	329	314	8	1	1 964
Skilled/Junior	2 137	349	190	2 901	594	296	1 993	545	8	7	9 020
Semi-Skilled	360	75	18	905	244	55	580	62	1	5	2 305
Unskilled	68	12		132	16		1	7			236
Total	**3 387**	**602**	**412**	**4 589**	**989**	**516**	**3 160**	**1 253**	**21**	**15**	**14 944**

(Note: A=Africans, C=Coloureds, I=Indians and W=Whites. 'Designated' refers to those groups defined as previously disadvantaged in national legislation.)

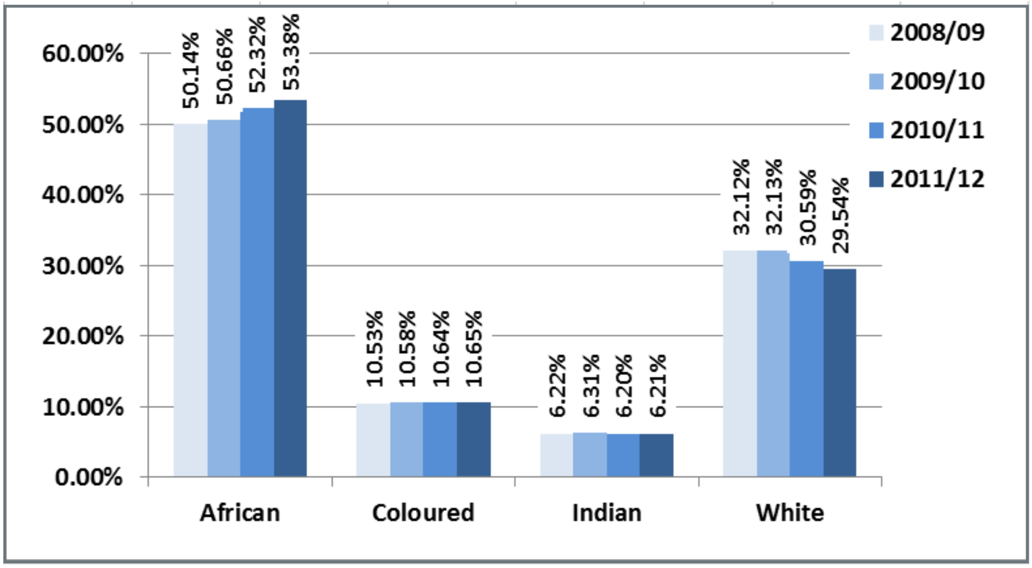
Table 31: Definitions of occupation levels: set of people characterised per level relates to the job grades within SARS

Occupational levels	Explanation
Top Management	Grade: 9 -10 represents SARS Commissioner, Chief Officers and Group Executives
Senior Management	Grade: 7 – 8B represents managerial positions with the following job titles: Executive, Senior Manager, Manager and Specialist
Professionals	Grade: 6 represents Operational Specialists and Team Leaders
Skilled and Junior	Grade: 0 and 4 – 5 represents Graduate Trainees and Functional Operators
Semi-Skilled	Grade: 2-3 represents Support Staff
Unskilled	Grade: 1 represents General Assistants

1.5.4.6 RACIAL PROFILE

The total SARS headcount among various racial sectors is reflected in Graph 5 below:

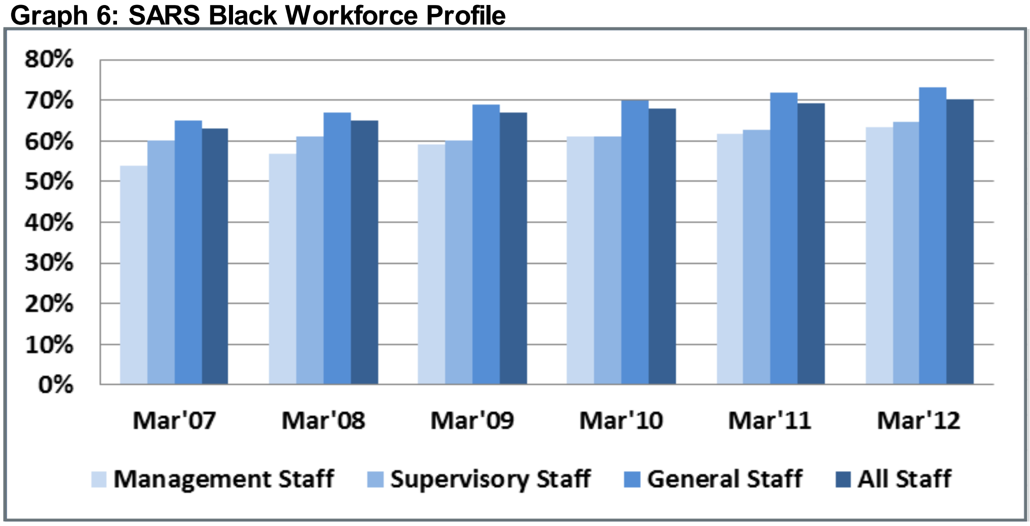
Graph 5 : SARS Racial Profile



1.5.4.7 BLACK WORKFORCE PROFILE

The SARS black workforce profile constantly increased over the past few years with an overall representation of 70.24%. The overall black representation in SARS is illustrated on a year-to-year comparative basis in Graph 6 below:

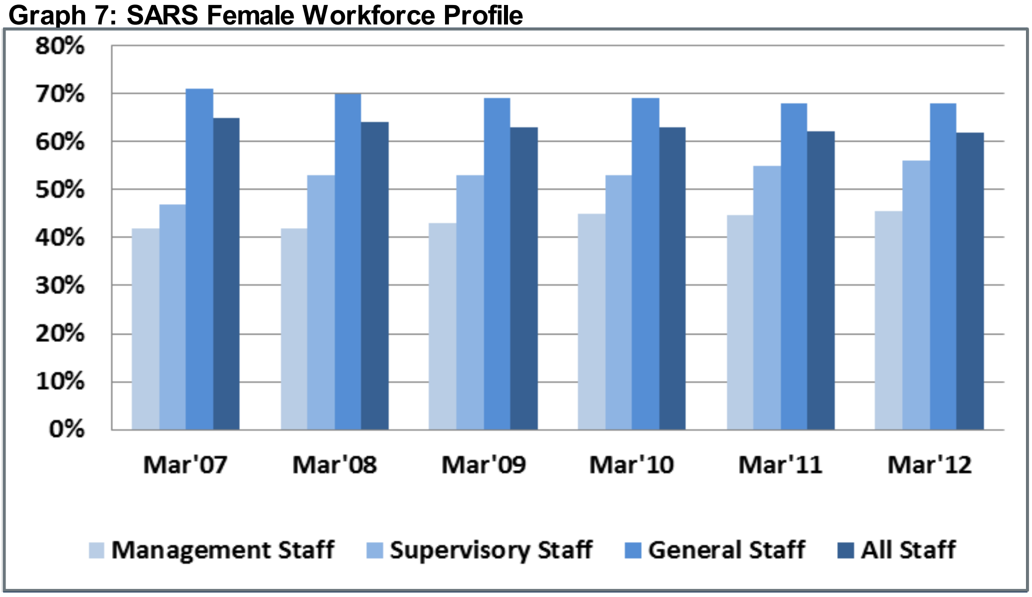
Graph 6: SARS Black Workforce Profile



1.5.4.8 FEMALE WORKFORCE PROFILE

The overall female representation in SARS is comparatively stable at 61.92%. SARS's aim to create gender balance at management levels ensured an increase of female representation by 2.11%. This is illustrated in Graph 7.

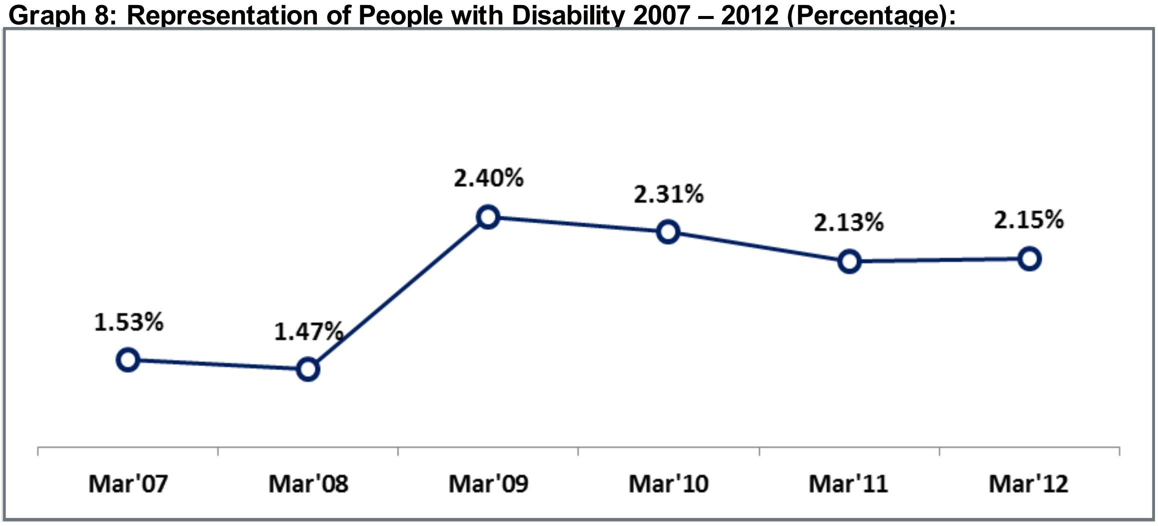
Graph 7: SARS Female Workforce Profile



1.5.4.9 DISABILITY PROFILE

The number of employees with disabilities shows a slight increase of 0.02% leading to a disability representation of 2.15%, which is above the guideline target of 2% set by government (See Graph 8). Action plans are in place to ensure adherence to the national imperative.

Graph 8: Representation of People with Disability 2007 – 2012 (Percentage):



1.5.4.10 EMPLOYEE RELATIONS

A total of 77.42% of SARS employees belong to officially recognised trade unions established in terms of the provision of the Labour Relations Act. SARS also recognises the importance of worker representative bodies and the benefits of engaging in constructive dialogue in collective bargaining and on issues of mutual interest. The value of this approach was illustrated in the conclusion of a 2-year wage agreement and subsequently review of the recognition agreement and multiple collective agreements to align with changing business dynamics and SARS strategy.

1.5.4.11 SKILLS PIPELINE AND YOUTH EMPLOYMENT

SARS introduced a comprehensive skills pipeline programme which aligns with the government plan around youth employment. Within SARS's constraints the organisation can still develop skills that it might not necessarily absorb within SARS, but will ensure that employees attain portable qualifications that can be applied elsewhere in South Africa, thereby contributing to preparing the youth for meaningful employment. Previously, SARS only offered a Graduate Programme and CA programme in the form of Training Outside Public Practice (TOPP). With the current process SARS has focused on a multi-pronged approach which is inclusive of internships, learnership and bursaries whilst it continues to sponsor 60 seats via the Thuthuka programme which is a feeder to the CA programme managed by SAICA.

Table 32: Skills Pipeline Programme 2011-2012

Skills Pipeline Programme 2011-2012			
Programme	**Description**	**2012 Performance**	**2013 Projection**
Graduate	A Graduate Programme provides a combination of learning and workplace experience and is meant for individuals who are in possession of a tertiary qualification.	301	205
Learnership • Graduate • Non-graduate	A learnership is a work-based learning programme that combine a structured learning component with practical work experience and leads to a nationally recognised qualification directly related to an occupation and registered on the National Qualification Framework (NQF).	0	28
Internship • Graduate • Non-graduate	An internship is a work-based approach to learning and gaining experience as well as obtaining an academic or vocational qualification.	13	100
Chartered Accountant	The CA (SA) programme is a structured learning programme aimed at graduates who wish to become Chartered Accountants.	13	13
External Bursary	A deliberate financial assistance intervention to disadvantaged students with potential at tertiary institutions for tuition, accommodation and books.	0	31

1.5.5 CORPORATE SOCIAL RESPONSIBILITY

SARS CSR continues to work towards achieving the mandate of SARS through CSR initiatives, linked to the current government priorities, in the areas of education, health and crime fighting.

SARS encourages and aligns the contributions of employees towards corporate social responsibility efforts, to broaden its societal impact. To achieve this, various activism projects were conducted and co-ordinated during 2011/12.

As part of the Corporate Social Responsibility (CSR) programme, SARS has sought to support schools by donating redundant equipment, including furniture and IT equipment.

The support to the schools is aimed at supporting and interacting with schools especially in border post communities where SARS Customs is located. To date approximately 4 000 assets, no longer used by SARS, were distributed to schools throughout South Africa. Approximately 2 200 students benefited from these assets.

In commemorating 2011 disability week with the theme "Together for a better world for all including persons with disabilities", IT and non-IT assets no longer used by SARS were donated to Leonard Cheshire Disability Home, located at Elukwatini, Mpumalanga Province, and to the Duduzwane Hospice in Johannesburg. They have also received food parcels, a stove and managed to fumigate the facility with contributions donated by SARS staff members. On World Aids Day, staff members spent some time at the Hospice cleaning and cooking lunch for the patients.

Performance information 02

2.1 MEASURING SARS's PERFORMANCE

SARS developed and presented the 2011/12 – 2013/14 SARS Strategic Plan to the Standing Committee of Finance (SCOF) in May 2011. In it SARS has distilled its objectives into four core outcomes that it believes will stand the test of time – namely increasing tax compliance; increasing customs compliance; increasing administrative efficiency; and increasing the organisation's cost effectiveness. SARS also identified the indicators to be used to monitor and measure its performance, as well as tangible, measurable and very specific targets for delivery, against each of its four outcomes, in line with government's commitment to improved monitoring and evaluation.

SARS has aligned its performance management approach to that of government's new planning and performance management approach, with the emphasis on delivery. This new planning approach emphasises the need for SARS to set and achieve clear outcome measures for each of the outcomes.

However, moving towards an outcomes-based approach is no easy task. A recent OECD report (Tax Administration in OECD and selected non-OECD countries: 2010) showed that even countries that have been using this approach for over 15 years, continue to struggle with issues of measurement and target setting. SARS is no different and has also been faced with challenges in this area. While SARS has outlined its intention to develop and baseline 13 new outcome measures, at the end of this year only seven have been completed. A formal request has been sent to the Minister of Finance to extend the target date for these outstanding six measures. These are reflected in the comments column of the performance tables to follow.

2.1.1 Table 33: Schedule of Performance Information 2011/12

SARS								
Predetermined Objectives: Schedule of Performance Information for 2011/12								
NO.	**STRATEGIC OUTCOME**	**STRATEGIC MEASURE**			**ACTUAL ACHIEVEMENT 2011/12**	**VARIANCE ON TARGET**	**COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%**
		MEASURES	**BASELINE**	**2011/12 TARGET**			
1	Increased Customs Compliance	Customs revenue collected (Rbn)	MTBPS Target for 2010/11 R109.2 billion (Audited outcome)	As per agreed target with Minister of Finance R134.4 billion (2011/12 Revised estimate)	R136.0 billion	R1.6 billion	
2	Increased Customs Compliance	% Trade volume coverage by Preferred Traders (Number of Preferred Traders declarations processed vs total number of declarations processed)		5	21.13	16.13	62 preferred trader audits were finalised during 2011/12. Of the total declarations submitted by customs clients, 13.4 million lines were declared during the 2011/12 period and 2.8 million of these lines were declared by potential preferred traders which equates to 21.13%.
3	Increased Customs Compliance	% Of cargo declarations targeted (Number of lines of declarations targeted vs total number of lines of declarations)	14	13	12	1.00	
4	Increased Customs Compliance	% Uptake in electronic manifest submissions (Number of electronic manifest submissions vs total number of manifest submissions)	0	60	80	20	Beneficial collaboration with operators, particularly in the air environment, coupled with extensive engagements with all stakeholders has impacted positively in the uptake of electronic manifest submissions.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2011/12	VARIANCE ON TARGET	COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%
		MEASURES	BASELINE	2011/12 TARGET			
5	Increased Customs Compliance	% Increase in customs compliance index	Not defined currently	Develop measure and baseline	Measures and baselines have been developed		
6	Increased Customs Compliance	% Decrease in size of illicit economy			Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
7	Increased Customs Compliance	Achieving progress against identified benchmarks (e.g. post clearance audit coverage)	Not defined currently	Develop measure and baseline	Not defined		We have had several engagements with various stakeholders in this regard, but failed to find a suitable benchmark that meets the relevant criteria. The target was not achieved.
8	Increased Tax Compliance	Total revenue (excluding Customs revenue) collected (R billion)	MTBPS Target for 2010/11 R565 billion (Audited outcome)	As per agreed target with Minister of Finance R604.4 billion (2011/12 Revised estimate)	R606.7 billion	R2.3 billion	
9	Increased Tax Compliance	% PIT filing compliance (Number of PIT returns submitted in tax year due vs Total number of PIT returns required in tax year)	79	79	83.16	4.16	
10	Increased Tax Compliance	Cash recovered from debt book (R billion)	8.8	11	R14.7 billion	R3.7 billion	The target has been achieved. Cash recovered from the Debt Book for the 2011/12 financial year was R14.70 billion. The reason for the 33.6% variance to target is that in the last quarter, new management, improved workflow systems and additional year end collection efforts contributed towards achieving the positive variance. It should be noted that in the new year, this measurement will be derived from a new measurement system.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2011/12	VARIANCE ON TARGET	COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%
		MEASURES	BASELINE	2011/12 TARGET			
11	Increased Tax Compliance	% Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold	3	4	8.16	4.16	The target has been achieved. Coverage was set in the 2011/12 Strategy at a target of 4%. It comprises Audits across Operations, LBC and Assurance audit (although the target was never adjusted to take Assurance Audits into account). Assurance audit was previously not included in the computations resulting in additional "little e audits" having been conducted and consequently led to this positive variance of 4.16%.
12	Increased Tax Compliance	% Increase in the Small Business register	Not defined currently	Develop and measure baseline	Measures and baselines have been developed	0	
13	Increased Tax Compliance	Debt book as a % of tax revenue					
14	Increased Tax Compliance	% CIT and VAT filing compliance (Number of CIT and VAT returns submitted in tax year due vs Total number of CIT and VAT returns required in tax year)					
15	Increased Tax Compliance	Tax compliance index for each tax product			Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
16	Increased Tax Compliance	Achieving progress against identified benchmarks (e.g. Audit performance)	Not defined currently	Develop and measure baseline	Measures and baselines have been developed	0	
17	Increased ease and fairness in doing business with SARS	% Uptake in electronic filing, declaration and payment submissions for all tax products (No. of electronic filing, declaration and payment submissions vs Total filing declaration and payment submissions)	80	80	94	14	

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2011/12	VARIANCE ON TARGET	COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%
		MEASURES	BASELINE	2011/12 TARGET			
18	Increased ease and fairness in doing business with SARS	% Uptake in electronic customs bills/ declarations (EDI)	70	80	95	15	
19	Increased ease and fairness in doing business with SARS	Average processing turnaround time for PIT returns (working days)	1.7	1.7	0.711	0.99	The improvement is due to channel migration of manual submissions to electronic, as well as an improvement in the processing turnaround time of electronic submissions.
20	Increased ease and fairness in doing business with SARS	Average processing turnaround time for CIT returns (working days)	2.85	2.85	2.92	-0.07	Difference is within acceptable variance
21	Increased ease and fairness in doing business with SARS	Average processing turnaround time for VAT refunds (working days)	21	15	45.54	-30.54	The VAT product is currently being modernised. This measure tracks the service performance from an end to end perspective, including the time waiting for taxpayers to submit supporting documentation and outstanding returns. Nevertheless 46% of all refunds were paid within 48 hours in this financial year compared to 17% in the previous financial year. In the next reporting period, this measure will be reviewed, to more accurately reflect SARS performance in alignment with the definition approved by the Minister for the 2012/13 year. The definition will therefore exclude where SARS is waiting for taxpayer supporting documentation and outstanding returns.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2011/12	VARIANCE ON TARGET	COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%
		MEASURES	BASELINE	2011/12 TARGET			
22	Increased ease and fairness in doing business with SARS	Average processing time for VAT registrations (working days)	Not defined currently	Develop measure and baseline	Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
23	Increased ease and fairness in doing business with SARS	% First contact resolution in contact centre and branches			Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
24	Increased ease and fairness in doing business with SARS	% Reduction in escalated service queries			Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
25	Increased ease and fairness in doing business with SARS	Taxpayer and trader compliance burden			Not defined		Obtained Minister of Finance's approval to extend the target date for developing the measure and baseline until 2012/13.
26	Increased ease and fairness in doing business with SARS	Achieving progress against identified benchmarks (e.g. complaints resolution)	Not defined currently	Develop measure and baseline	Measures and baselines have been developed	0	
27	Increased cost effectiveness and internal efficiency	Treasury allocation to revenue percentage	1.3	1.2	1.1	0.1	
28	Increased cost effectiveness and internal efficiency	Unqualified Audit Report	Unqualified report	Unqualified report	Not available		Annual Measure. The Auditor General report was not available at the time that this report was being compiled.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2011/12	VARIANCE ON TARGET	COMMENTS/REASONS FOR NEGATIVE VARIANCES AND POSITIVE VARIANCES >20%
		MEASURES	BASELINE	2011/12 TARGET			
29	Increased cost effectiveness and internal efficiency	% Of files digitised within SARS	Not defined currently	Develop measure and baseline	Measures and baselines have been developed	0	
30	Increased cost effectiveness and internal efficiency	Unit cost per process					
31	Increased cost effectiveness and internal efficiency	Productivity per employee					
32	Increased cost effectiveness and internal efficiency	Achieving progress against identified benchmarks (e.g. cost per process)	Not defined currently	Develop measure and baseline			

GOVERNANCE, LEGAL AND RISK MANAGEMENT

03

3.1 THE SARS EXECUTIVE COMMITTEE

Over the past two years, the operating model has been implemented in a phased and gradual approach to ensure smooth and continuous operations and to allow for on-going engagement with staff. During the year under review, the new operating model has also revealed a number of challenges and opportunities.

The SARS EXCO has shifted its strategy with regards to segmentation from an operating model/structural design principle to a compliance approach philosophy in which compliance and service strategies are developed to cater for different segments but are implemented within the existing SARS operational structures.

The original concept of a Segmentation portfolio under the direction of a Chief Officer incorporating the Large Business Centre, small and medium business units, tax practitioner unit and a preferred traders unit is no longer under consideration as a result of cost effectiveness concerns.

Instead, a segmented compliance approach will be developed under the Strategy unit within the Deputy Commissioner's portfolio as part of a SARS Compliance Programme.

Due to its strategic importance, the Large Business Centre will continue to operate independently (although highly co-operatively) within SARS and as such, the EXCO has been structured to include representation of the LBC.

The table below illustrates the changes and roles affected.

Table 34: SARS Executive Committee

Full name	Role
Oupa Magashula (Chairperson)	Commissioner
Ivan Pillay	Deputy Commissioner/Chief Officer: Strategy, Enablement and Enforcement
Barry Hore	Chief Officer: Operations
Kosie Louw	Chief Officer: Legal and Policy
Trix Coetzer	Chief Financial Officer
Elsie Pule	Chief Officer: Human Resources
Gene Ravele	Chief Officer: Customs and Border Management
Sunita Manik	Group Executive: Large Business Centre (Member from 1 May 2011)
Bob Head	Special Advisor: Commissioner (Member from March 2012)

3.2 THE SARS AUDIT COMMITTEE

The SARS Audit Committee has ensured its independence in accordance with Section 77 of the Public Finance Management Act (PFMA) and Treasury Regulations 27.1.3 and 27.1.4, through the appointment of an external chairperson Mr Bongani Nqwababa and three additional external (non-executive) members. The Chairperson and all the other members complied with statutory required competency, independence and conflict of interest requirements.

In the year under review, the Audit Committee reviewed the effectiveness of SARS's internal control systems, the effectiveness of SARS's internal audit function, the risk areas of SARS's operations to be covered in the scope of internal and external audits, the adequacy, reliability and accuracy of financial information provided to management and other users of such information, any accounting and auditing concerns identified as a result of internal and external audits. Also reviewed were SARS's compliance with legal and regulatory provisions, the activities of the internal audit function, (including its annual work Programme), co-ordination with the Auditor-General, reports of significant investigations and the responses of management to specific recommendations.

The Audit Committee Report comprising, amongst others, details of membership and meetings conducted is included in Part 4.

3.3 THE HUMAN RESOURCE COMMITTEE

The Human Resource Committee continued to advise the Minister and Commissioner on matters concerning the terms and conditions of employment of all employees in the management structure of SARS and broader Human Resource (HR) practices. During the year under review the committee made recommendations and gave direction in respect of the SARS performance management system, in particular its application to Senior Management; SARS's HR performance during the year; the SARS leadership model; the annual human resources business plan and strategy; employee engagement; remuneration matters and wage negotiations as well as other pertinent management information, including staff establishment and absenteeism.

3.3.1 THE COMMITTEE COMPRISES SIX NON-EXECUTIVE MEMBERS, NAMELY:

Ms Judy Parfitt (Chairperson HR Committee):

Director of the Resolve Group;

BJourn HDE (Rhodes), BA Hons (UPE), MA (UPE), MA (Warwick), Certified Executive Coach

Mr Mike Olivier (Chairperson Remuneration Committee):

Managing Director: Synchrona Leadership Strategies

BSc (UCT), BSc (Honours) (Wits), MSc (Wits), MBA (Stanford University Graduate School of Business in California)

Prof Dilip Garach:

CEO: Garach&Garach. Financial Advisory Services

B.Com; CA(SA); B.Com. Hons(Tax Law); M.Com; Dip.A.P.P; CFA (SA); CFP; CEA

Ms Humaira Mooketsi-Choonara:

Executive Manager, Human Capital Service Delivery, Transnet Freight Rail.

Master's Degree in Social Science (RAU), BA Psych Hons (Vista University), Master of Science in Business Engineering (Warwick University), Leadership Development Programme: United States Internship (Madison, New Jersey), Management Advanced Programme (MAP) (Wits University), Advanced Diploma in Human Resources (UNISA)

Laura Machaba-Abiodun Cert.Dir:

Executive Organisational Consultant, advises Chief Executives and Chairmen of companies on unlocking value and accelerating growth through people and effective boards.

HDip.Ed Information Systems (Wits), BCom Law (University Of The North), MACommunication and Training - Human Performance Technology (Governors State University, USA), MBA - General Management (Rosary College, USA), Organisational Change Leadership & Executive Programme (Harvard University, USA) PhD (8 Credits) (University Of Indiana, USA)

The last four listed persons are also members of the Remuneration Subcommittee. The Chairpersons of the Committee and Subcommittee respectively, as well as all the other members complied with statutorily required competency, independence and conflict of interest requirements.

3.4 LEGISLATIVE SERVICES

3.4.1 LEGISLATIVE RESEARCH AND DEVELOPMENT

Bringing a consultative process that commenced in 2009 to a close, the Tax Administration Bill was approved by Parliament in 2011. The Bill modernises and harmonises the common administrative elements of current tax law and makes other improvements in this arena. It is expected to be promulgated early in the 2012/13 financial year and most of its provisions brought into force in the coming year.

A vital role was played in the finalisation of the following acts which have been promulgated in December 2011 and January 2012 respectively:

- Taxation Laws Amendment Act, 2011 (Act No 24 of 2011) – promulgated 10 January 2012

- Taxation Laws Second Amendment Act, 2011 (Act No 25 of 2011) – promulgated 14 December 2011

The rewrite of customs aspects in the Customs and Excise Act, 1962, is at an advanced stage.

53 Tariff Amendments were also published as per Table 35 below.

Table 35: Tariff Amendments 1 April 2011 to 31 March 2012

Type of amendment	No
1. Schedule No. 1 Part 1	
Increase in the rate of duty	6
Reductions in the rate of duty	4
Informal traders (specific provision)	1
Statistical lines created	3
2. Schedule No. 2	
Anti-dumping duty inserted or amended	6
Anti-dumping items deletion	4
Name change	3
Provisional payment	2
3. Rebate and refund items created in Schedule No. 3, 4, 5 and 6	
Rebate items inserted	15
4. Other	
Budget proposals announced in February 2012	4 (Sched 6 Part 3, Sched 1 Part 5B, Sched 1 Part 5A, Sched 1,Part 3B
Changes to Notes	4
Air passenger tax	1
Yearly phase-down of duties in terms of trade agreements	1 (multiple lines)
Implementation of the HS 2012	

To improve South Africa's international treaty network and co-operation between tax administrations, 12 international tax agreements, as listed below in Table 36, were concluded at officials' level.

Table 36: International agreements/protocols relating to Customs as officials' level

Country	Agreement finalised up to officials' level
Turkey Protocol	April 2011
Malta Protocol	May 2011
Senegal DTA	May 2011
Argentina TIEA	May 2011
Costa Rica TIEA	May 2011
Cyprus Protocol	Jun 2011
Swaziland VAT	Jun 2011
Dominica TIEA	Jul 2011
Guernsey TIEA MOU on costs	Sep 2011
Samoa TIEA	Oct 2011
OECD Multilateral Convention on Mutual Administrative Assistance	Nov 2011
Bermuda EOI Competent Authority Agreement	Nov 2011

3.4.2 INTERPRETATION AND RULINGS

Clarity was provided on the interpretation of the tax laws administered by SARS by way of:

- Issuing interpretation notes and/or brochures on new and contentious areas of legislation
- Finalisation of draft documents which were previously issued for public comment
- Updating of interpretative tax policy documents (including brochures) previously issued to ensure that they are current and reflecting SARS's position correctly
- Issuing of binding private and binding class rulings on future transactions as well as binding VAT Rulings.

Some of these documents are listed in Table 37 below

Table 37: New and updated Interpretative Tax Policy Documents

Documents issued on new/contentious areas of legislation	Draft documents prepared the previous financial year on interpretative tax policy matters finalised this year	Interpretative tax policy documents previously issued (including brochures) updated
Draft Interpretation Notes:	**Guide:**	**Guides:**
• Taxable Benefit: Use of employer-provided cellular phones or computer equipment and employer-funded telecommunications service	• Disposal of residence from a company or a trust	• VAT 404 Basic VAT Guide for Vendors
• Right of use of motor vehicle (company cars)	**Interpretation Notes:**	• VAT 412 Guide: Share block schemes
• Long Service Awards	• No 20: Additional deduction for learnerships	• Tax Guide for Small Businesses 2011/12 (annual update)
• Game Farming	• No 43: Sale of shares on capital account	• Tax Guide for Micro Businesses (update new legislation)
• Tank Containers	• No 63: Rules for the translation of amounts measured in foreign currencies	• Comprehensive CGT Guide (update new legislation)
• Leasehold Improvements	• No 64: Exemption: Bodies corporate, share block companies and associations of persons	• Comprehensive Guide to STC
• Connected Persons: Who is regarded as a connected person to another person?	• No 65: Trading stock distributed or disposed of other than in the ordinary course of trade	• Medical expenditure
Binding General Rulings:	• No 66: Bursaries and Scholarships	• Updated list of qualifying physical impairment and disability expenditure
• Similar Taxes for purposes of treaties		**Draft Guides:**
• Use of pre-determined exchange rate		• Revised Draft Guide : VAT and short-term insurance (public comment)
Discussion Paper:		• Transfer Duty Guide
• Paper on Interpretation Note 6: Place of Effective Management		**Interpretation Notes:**
Draft Guide:		• No 31: Documentary proof required for the zero-rating of goods or services
• Disclosure of Reorganisation Transactions		• No 40: Treatment of the supply of goods or services to and/or from a customs controlled area of an industrial development zone
		• No. 14 (revised draft): Allowances, advances and reimbursements paid to employees (Total rewrite)
		Discussion Document:
		• Proposed VAT Apportionment Methodology for Category B Municipalities

3.4.3 DISPUTE RESOLUTION

It was a successful year for SARS in the courts on both customs and revenue matters. SARS was also allocated costs in a substantial number of matters.

A break-down of revenue and customs cases dealt with through litigation are set out in Table 38 below.

Table 38: Breakdown of revenue and customs cases dealt with through litigation

Revenue Appeal cases		Customs Appeal cases	
Tax Court	**Quantity**	**Magistrate Court**	**Quantity**
Won	10	Won	1
Lost	3	Lost	0
Total cases	13	Total cases	1
High Court		**High Court**	
Won	9	Won	18 (one full bench with costs, 13 with costs)
Lost	1	Lost	1(with costs)
Total cases	10	Total cases	19
Supreme Court of Appeal cases		**Supreme Court of Appeal cases**	
Won	5	Won	0
Lost	0	Lost	0
Total cases	5	Total cases	0

A total of 402 cases were also dealt with at head office level and 940 at regional level through the Alternative Dispute Resolution process.

3.4.4 CORPORATE LEGAL SERVICES

Legal services and advice was provided to SARS on corporate law provisions, as well as on the impact of non-tax legislation that might have a bearing on SARS's operations and administration. A supportive role was also played to ensure corporate compliance with legislation and applicable regulatory provisions and to mitigate the risks faced by SARS in its commercial dealings.

3.5 SARS ENTERPRISE RISK MANAGEMENT

SARS has chosen a decentralised approach to risk management. The SARS strategy has been to establish a centre of excellence at the enterprise level to provide governance and policy direction, and decentralised accountability to the divisions to take ownership of risk practices and execution. The subsequent step of embedding risk at the divisions has culminated in the creation of the first draft of the Operational Risk Strategy and Framework. During the year under review, SARS has expanded its Operational Risk Strategy to Embedding Risk in Business Planning.

At the enterprise level, risk governance structures, namely the Enterprise Risk Committee and the Compliance Risk Committee, are bedding down and maturing to the demands of the organisation. These committees are chaired by the Deputy Commissioner and their focus remains to oversee the management of key enterprise-wide risks and key taxpayer/trader compliance risks respectively. A strategic profile of SARS risks has been compiled and has been debated and approved by the Enterprise Risk Committee. This profile will influence future thinking around SARS long- and short-term planning. This profile has been presented to the Standing Committee on Public Accounts (SCOPA) as well as to the planning structures of the National Treasury and has been favourably received.

At the operational level, integration of risk management into key decision-making processes of the organisation was also achieved with the explicit inclusion of risk management principles into SARS's strategic and business planning processes.

The baseline operational risk profile that captures credible risks (both planning and business risks) that might negatively affect achievement of key organisational and divisional objectives, has been extensively analysed and summarised. The results will enable stronger decision making choices for SARS management. The high-end operational risks form an important component in the definition of the strategic risk profile.

An electronic risk repository has been commissioned and configured. Divisional representatives have been trained in the use of the tool and all current risk profiles have been successfully captured onto the tool. Major enhancements of the tool and its utilisation are planned for the future.

FINANCIALS

04

4.1 REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2012 in terms of Treasury Regulations 3.1.1.9 and 10 whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

Audit Committee Members and Attendance

The Audit Committee operates in terms of an approved written terms of reference, which deals with its membership, authority and responsibilities. These terms of reference are reviewed at least annually to ensure their continued relevance (Treasury Regulations 27.1.6).

The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. The Audit Committee consisted of four external members listed hereunder and held three meetings for the financial year under review. Mr Mustaq Brey resigned from the SARS Audit Committee on 11 September 2011 to take up the Chairmanship of the Interfront SOC Ltd (wholly owned subsidiary of SARS).

Audit Committee Attendance

Audit Committee Members	Meeting Dates		
	22 July 2011	09 Sept 2011	16 March 2012
Mr Bongani Nqwababa (Chairperson Audit Committee): Finance Director: Anglo American Platinum Limited; B. Acc Hons (University of Zimbabwe), CA (ZIM), MBA in Finance (Universities of Manchester and Wales, Bangor)	√	√	√
Ms Berenice Lue-Marais: Head: Strategic Contracts, CSIR; MBA International Finance (The American University, Washington, DC), Bachelor of Arts, BA Economics (The University of the District of Columbia, Washington, DC)	√	√	√
Mr Mustaq Brey: CEO: Brimstone Investment Corporation Limited, B. Compt (Hons), CA (SA)	√	√	–
Mr Vuyo Kahla: Group Executive: Advisory and Assurance: Sasol Limited; Bachelor of Arts (Rhodes University), LLB (Rhodes University)	√	√	X

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) and 76(4)(d) of the PFMA, and Treasury Regulation 27.1. The Audit Committee has regulated its affairs in compliance with its Terms of Reference and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. From the various reports issued by the Internal Audit function, the External Audit Report on the Annual Financial Statements and management letters of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures has been reported.

In line with the PFMA and the King III Report on Corporate Governance, the Internal Audit function provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The Audit Committee satisfied itself that SARS took the necessary steps to maintain the effective functioning of its Internal Audit unit. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

Evaluation of Financial Statements

The Audit Committee has:

a. Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Auditor-General and the Accounting Officer
b. Reviewed the Auditor-General's management letters and management's responses thereto
c. Reviewed accounting policies
d. Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Bongani Nqwababa
27 July 2012

ADMINISTERED REVENUE

ANNUAL FINANCIAL STATEMENTS - 31 MARCH 2012

CONTENTS

The attached annual financial statements were approved and signed by:

Oupa G. Magashula
SARS Commissioner

27 July 2012

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE

REPORT ON FINANCIAL STATEMENTS

Introduction

I have audited the financial statements of the South African Revenue Service (SARS): Administered Revenue set out on pages 78 to 87, which comprise of the statement of financial position as at 31 March 2012, the statements of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

The accounting authority is responsible for the preparation of these financial statements in accordance with the basis of accounting, as set out in the accounting policy note 1.1 to the financial statements and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the SARS: Administered Revenue as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with the basis of accounting, as set out in accounting policy note 1.1 to the financial statements and the requirements of PFMA.

Emphasis of matter

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

Financial reporting framework

As disclosed in accounting policy note 1.1 to the financial statements, the Minister of Finance has approved a departure from the financial reporting framework applicable to SARS: Administered Revenue for the reasons indicated.

Additional matter

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

Financial reporting framework

The financial reporting framework approved by the Minister of Finance and applied by SARS: Administered Revenue is a compliance framework. The wording of my opinion on a compliance framework should reflect that the financial statements have been prepared in accordance with this framework and not that they "present fairly". Section 20(2)(a) of the PAA, however, requires me to express an opinion on the fair presentation of the financial statements. The wording of my opinion therefore reflects this requirement.

REPORTING ON OTHER LEGAL REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

I performed procedures to obtain evidence about the usefulness and reliability of the information in the performance information report as set out on pages 57 to 62 of the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned outcomes/output measures. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury framework for managing programme performance information.*

The reliability of the information in respect of the selected outcomes/output measures is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
There were no material findings on the performance information report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

INTERNAL CONTROL

I did not identify any deficiencies in internal control, which we considered sufficiently significant for inclusion in this report

Auditor-General

Pretoria
31 July 2012

AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

STATEMENT OF FINANCIAL POSITION

as at 31 March 2012

	Notes	2012	2011
		R '000	R '000
Administered Assets			
Amount due by National Revenue Fund		**-**	**407**
Current assets			
Bank	2	126 851	-
Accounts receivable	3	6 183	5 629
Cash and cash equivalents	4	2 310	1 400
Other assets	5	190	187
Total administered assets		**135 534**	**7 623**

	Notes	2012	2011
Administered Liabilities			
Amount due to National Revenue Fund		**135 534**	**-**
Current liabilities			
Bank	2	-	7 622
Other liabilities	6	-	1
Total administered liabilities		**135 534**	**7 623**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2012

	Notes	2012 R '000	2011 R '000
Taxation		**771 595 427**	**699 496 672**
Income tax	7	426 583 400	379 912 152
Value-added tax		191 020 199	183 571 439
Fuel levy*	8	53 230 281	48 918 315
Customs duties		34 197 901	26 637 438
Excise duties		27 239 495	24 563 842
Unemployment insurance fund		12 183 955	11 098 707
Skills development levy		10 173 133	8 652 339
Environmental levy **	9	8 244 690	6 030 444
Other taxes	10	7 814 606	9 105 371
Air passenger tax		762 416	648 929
Universal service fund		75 089	255 341
Diamond export levy ***		64 229	70 473
Turnover tax on small businesses		5 703	2 802
Small business tax amnesty		330	29 080
Non-taxation		**5 561 133**	**4 720 313**
Mineral and petroleum royalty ****		5 611 539	3 554 722
Mining leases and ownership		80 047	860 155
Non-tax revenue	11	7 403	16 740
Provincial administration receipts	12	3 290	19 392
Customs miscellaneous revenue	13	(141 146)	269 304
TOTAL REVENUE		**777 156 560**	**704 216 985**
LESS: SOUTH AFRICAN CUSTOMS UNION AGREEMENT Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	14	21 759 965	17 905 679
NET REVENUE FOR THE YEAR		**755 396 595**	**686 311 306**

Notes:

* Comparative figures for Fuel levy in respect of the prior year has been restated as a result of changes in the disclosure the Road Accident Fund and Diesel refunds. These levies were disclosed as separate line items per the statement of financial performance in the prior year. These levies have been consolidated and are included in the Fuel levy.

** Environmental levy comprises Electricity levy, Carbon dioxide vehicle emissions tax, Plastic bag levy and Incandescent light bulb levy. These levies were disclosed as separate line items in the prior year.

*** Diamond export levy in respect of the prior year was included in Mining leases and ownership as part of non-tax revenue. This levy has now been disclosed as a separate line item as tax revenue.

**** Mineral and petroleum royalty which was classified as tax revenue is now disclosed as non-tax revenue.

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2012

	R '000
Amount due (to) / by National Revenue Fund	
Balance at 31 March 2010	**(44 882)**
Net gains and losses not recognised in the statement of financial performance	45 289
Net revenue for the year	(686 311 306)
Transfer to the National Revenue Fund	686 356 595
Balance at 31 March 2011	**407**
Net gains and losses not recognised in the statement of financial performance	(135 941)
Net revenue for the year	(755 396 595)
Transfer to the National Revenue Fund	755 260 654
Balance at 31 March 2012	**(135 534)**

CASH FLOW STATEMENT

for the year ended 31 March 2012

	Notes	2012 R '000	2011 R '000
Cash flow from operating activities			
Cash received from operating activities	15	**777 156 002**	**704 215 345**
Taxation*		771 594 869	699 495 032
Non-taxation*		5 561 133	4 720 313
Cash transferred		**(777 020 619)**	**(704 262 274)**
Payments in respect of Customs Union Agreement		(21 759 965)	(17 905 679)
Cash to National Revenue Fund		(755 260 654)	(686 356 595)
Net cash (transferred)/retained from operations		135 383	(46 929)
Cash and cash equivalents at beginning of year		(6 222)	40 707
Cash and cash equivalents at end of year	**16**	**129 161**	**(6 222)**

Note:

* Changes in comparative figures in respect of taxation and non-taxation is due to Diamond export levy included in Mining leases and ownership as part of non-tax revenue and now disclosed as tax revenue. Furthermore, there has been a shift of Mineral and petroleum royalty from tax revenue to non-tax revenue.

1. Accounting Policies

1.1 Basis of accounting

The annual financial statements have been prepared on the cash basis of accounting. In terms of the Public Finance Management Act No.1 of 1999 (PFMA), SARS is required to comply with generally accepted accounting practice unless the Accounting Standards Board (ASB) approves the application of Generally Recognised Accounting Practice (GRAP).

By virtue of the powers vested in the Minister of Finance by section 91(1) (b) of the PFMA, the Minister prescribed the Standards of GRAP as set by National Treasury in terms of section 89(1) (a) (ii), read with section 93(3) of that Act, for the annual financial statements of national public entities, in respect of taxes, duties, levies, fees and other monies collected by such entities which must be deposited into a Revenue Fund as defined in that Act. This was promulgated in government notice number R. 1095 dated 30 October 2001. Approval to remain on the cash basis of accounting for financial statements and audit purposes until at least March 2012 was obtained from the Minister of Finance on 23 April 2007.

The ASB approved the Revenue from Non-Exchange Transactions standard (GRAP 23) in February 2008 and the Minister of Finance announced the effective date of the standard as 1 April 2012. This standard provides for the accrual principle to be adopted when recognising and measuring taxation revenue arising from non-exchange transactions. SARS will need to comply with the transitional provisions of GRAP 23 as prescribed in Directive 6 on Transitional Provisions for revenue collected by SARS, issued in July 2009 as from 1 April 2012. Directive 6 determines a 6 year transitional period starting from the effective date of the standard. SARS will be required to change the accounting policies in respect of the recognition and measurement of taxation revenue at the expiration of the 6 year period and changes prior to this date will be in accordance with the provisions of Directive 6.

In terms of the basis of accounting promulgated in government notice number R. 1095 dated 30 October 2001, the following policies apply.

1.2 Revenue recognition

1.2.1Definition of revenue

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

1.2.2 Recognition of revenue

Revenue is represented by gross collections net of refunds. Refunds are represented by cheques raised (issued) or the raising of electronic refunds.

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

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

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

1.3 Revenue 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.

1.4 Cash and cash equivalents

Cash includes cash on hand which comprises amounts receipted by SARS branch offices as at 31 March but not yet deposited. SARS does not have any term loan or bank overdraft facilities. All balances at the major banks participating in the cash management function of central government are cleared to the National Revenue Fund on a daily basis.

1.5 Accounts receivable

Accounts receivable include all monies collected by the South African Post Office Limited which have not yet been paid over to SARS.

1.6 Bank

The bank balance comprises cheques issued but not yet presented for payment, net reconciling items allocated/not allocated to revenue and bank account balances on 31 March not transferred to the National Revenue Fund by the banks.

1.7 Amount due to/by the National Revenue Fund

Amount due to/by the National Revenue Fund reflect the cumulative difference between the transfer of revenue to the National Revenue Fund and revenue recorded per the Statement of Financial Performance.

	Notes	2012 R '000	2011 R '000

2. Bank

The bank balance of R126 850 985 for the 2011/12 financial year represents an asset, whilst the balance of (R7 622 357) for the 2010/11 financial year represented a liability.

2011/12: Bank comprises net reconciling items amounting to R226 982 395, cheques issued but not yet presented for payment amounting to (R100 411 533) and monies not transferred to the National Revenue Fund at month-end amounting to R280 123.

2010/11: Bank comprises cheques issued but not yet presented for payment amounting to (R144 830 428), net reconciling items amounting to R136 074 361 and monies not transferred to the National Revenue Fund at 31 March amounting to R968 251.

	2012 R '000	2011 R '000
3. Accounts receivable	**6 183**	**5 629**
South African Post Office Limited (VAT)	6 183	5 629

	2012 R '000	2011 R '000
4. Cash and cash equivalents	**2 310**	**1 400**
Cash on hand	2 310	1 400

	2012 R '000	2011 R '000
5. Other assets	**190**	**187**
Provincial administration	187	187
Receivables	3	-

The provincial debtor of R186 857 relates to monies owing by the Eastern Cape province as a result of an overpayment of provincial revenue by SARS during the 1999/2000 financial year.

	2012 R '000	2011 R '000
6. Other liabilities	**-**	**1**
Accounts payable	-	1

	2012 R '000	2011 R '000
7. Income tax	**426 583 400**	**379 912 152**
Pay-as-you-earn	245 612 213	220 308 330
Persons individuals and companies	158 999 113	142 422 861
Secondary tax on companies	21 965 409	17 178 188
Tax on retirement fund industry	6 665	2 773

	2012 R '000	2011 R '000
8. Fuel levy*	**53 230 281**	**48 918 315**
Fuel levy	35 497 061	32 947 946
Road Accident Fund levy	16 628 018	14 500 738
Pipeline levy	1 624 729	1 516 337
Road Accident Fund recoupment	1 236 663	1 236 374
Diesel refunds	(1 756 190)	(1 283 080)

Road Accident Fund levy is payable on the production of fuel.

The Road Accident Fund recoupment represents the amount due to SARS in respect of that portion of the diesel refunds already effected to qualifying industries.

	2012 R '000	2011 R '000

Note:

* Comparative figures for Fuel levy in respect of the prior year has been restated as a result of changes in the disclosure to the Road Accident Fund and Diesel refunds. These levies were disclosed as separate line items per the statement of financial performance in the prior year. These levies have been consolidated and are included in the Fuel levy.

	2012 R '000	2011 R '000
9. Environmental levy**	**8 244 690**	**6 030 444**
Electricity levy*	6 322 932	5 103 154
Carbon dioxide vehicle emissions tax	1 617 352	625 891
Plastic bag levy*	160 619	150 316
Incandescent light bulb levy	143 787	151 083

This environmental levy was introduced to support demand-side measures, the energy-efficiency strategy and to support initiatives dealing with environmental concerns, air pollution and climate change.

Notes:

* Plastic bag levy in respect of the 2010/11 financial year has been restated from R257 104 to R150 316 due to a reallocation to Electricity levy, from R4 996 366 to R5 103 154. This reclassification impacts the sub classification under Environmental levy only, and therefore has no impact on the financial statements.

** Environmental levy now includes Electricity levy, Carbon dioxide vehicle emissions tax, Plastic bag levy and Incandescent light bulb levy, which were disclosed as separate line items per the statement of financial performance in the prior year.

	2012 R '000	2011 R '000
10. Other taxes	**7 814 606**	**9 105 371**
Transfer duties	3 833 565	5 322 487
Securities transfer tax	2 884 035	2 925 178
Estate duty	1 045 163	782 325
Donations tax	52 657	64 584
Marketable securities tax	2 080	7 728
Stamp duty and master fees	(2 894)	3 069

	2012 R '000	2011 R '000
11. Non-tax revenue	**7 403**	**16 740**
State miscellaneous revenue	7 403	16 698
State fines and forfeitures	-	42

State miscellaneous revenue primarily comprises stale cheques credited to this allocation.

	2012 R '000	2011 R '000
12. Provincial administration receipts	**3 290**	**19 392**
Provincial administration consolidated account	3 290	19 392

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

	2012 R '000	2011 R '000
13. Customs miscellaneous revenue	**(141 146)**	**269 304**
Revenue in respect of other departments	115	381
Customs miscellaneous revenue	(141 261)	268 923

Customs miscellaneous revenue primarily comprises the liquidation of provisional payments.

14. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	**61 437 395**	**51 191 524**
Namibia	571 067	601 184
Botswana	427 153	433 449
Lesotho	157 758	184 545
Swaziland	146 624	54 949
Sub-total	**1 302 602**	**1 274 127**
South Africa	**60 134 793**	**49 917 397**

All Southern African Customs Union (SACU) member countries collect customs and excise duties at SACU border posts as well as excise duties from domestic producers and remit these into the Tax and Loan accounts held by SARS. Revenue collected by SARS is remitted continuously whilst Botswana, Lesotho, Namibia and Swaziland (BLNS) remit their collections in this regard to SARS on a quarterly basis.

Received from the Common Customs Pool	**61 437 395**	**51 191 524**
Botswana	8 948 678	6 618 082
Namibia	7 136 965	5 975 941
Swaziland	2 881 093	2 629 616
Lesotho	2 752 650	2 628 162
Secretariat	40 579	53 878
Sub-total	**21 759 965**	**17 905 679**
South Africa	**39 677 430**	**33 285 845**

Payments out of the SACU revenue pool from South Africa to the BLNS countries are effected at the beginning of each quarter. The share of these payments is determined annually according to the structure of the revenue sharing formula. The National Treasury effects these payments into the nominated bank accounts of the BLNS countries.

15. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year as per statement of financial performance	**755 396 595**	**686 311 306**
Adjusted for:		
Payments in terms of Customs Union Agreement	21 759 965	17 905 679
Increase / (Decrease) in other liabilities	(1)	1
Decrease / (Increase) in other assets	(3)	79
Decrease / (Increase) in accounts receivable	(554)	(1 720)
Total cash received as per cash flow statement	**777 156 002**	**704 215 345**

16. Cash and cash equivalents in respect of cash flow statement	**129 161**	**(6 222)**
Bank (as per statement of financial position)	126 851	(7 622)
Cash and cash equivalents (as per statement of financial position)	2 310	1 400

	2012	2011
	R '000	R '000

17. Guarantees

Guarantees issued in favour of SARS amounting to R16 426 385 (R25 449 801 : 2010/11) are held as security for various taxes payable.

Guarantees issued in favour of SARS amounting to R5 603 216 991 (R5 171 233 657 : 2010/11) are held as security for various duties payable.

18. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes and duties to the amount of R8 184 190 298 (R6 051 223 514 : 2010/11) has been written off on or prior to 31 March 2012. Amounts still awaiting approval for write-off do not form part of actual write-offs.

The figure in respect of the 2010/11 financial year has been restated from R4 084 853 723 to R5 512 784 753 resulting from updated statistics. The correction of this error does not impact the financial statements - refer accounting policy note 1.1 dealing with the cash basis of accounting.

Summary of write-off	2012 R '000	2011 R '000
Taxes	**8 048 560**	**5 512 785**
VAT	5 259 648	1 985 956
Income Tax	1 834 526	3 136 458
PAYE	834 586	345 565
UIF	76 341	27 815
SDL	43 459	16 991
Customs	**135 630**	**538 439**
Customs and Excise	135 630	538 439
Total write off	**8 184 190**	**6 051 224**

Breakdown of total write-off	2012 R '000	2011 R '000
Total write off	**8 184 190**	**6 051 224**
Capital	3 860 335	3 448 941
Penalty and additional tax	2 407 318	626 431
Interest	1 916 537	1 975 852

UNAUDITED ANNEXURES

UNAUDITED ANNEXURES - 31 MARCH 2012

CONTENTS

The annexures do not form part of the audited financial statements and are presented as additional information.

ANNEXURE 1.1

The ageing of debt last year was based on disclosure of the debt in the tax period to which the debt related.
A revision of the ageing has resulted in an amendment to this format, with the consequence that the ageing now reflects how long the debt has been on the books.

TAXES AND DUTIES: Unaudited overdue taxpayer debt (receivables) as at 31 March 2012

2011/2012	0 - 3 Months	4 - 6 Months	7 - 9 Months	10 - 12 Months	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months	More Than 60 Months	Overdue Debt	Returns Received: Taxes not yet Due (Previously "New Debt")
	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands
Income Tax	5 766 832 561	3 095 332 333	4 475 660 900	1 744 759 500	5 786 345 169	4 030 462 966	2 469 584 643	1 588 479 068	6 708 404 611	35 665 861 751	6 008 932 882
Individuals	2 570 554 510	1 259 432 588	1 495 133 685	710 408 672	2 758 774 075	2 467 352 882	1 322 491 940	937 286 851	3 535 562 776	17 056 997 979	1 460 961 600
Trusts	95 717 487	58 105 942	26 188 984	28 212 770	98 734 625	44 564 005	26 128 421	24 307 195	36 512 547	438 471 976	141 564 906
Companies	3 100 560 564	1 777 793 803	2 954 338 231	1 006 138 058	2 928 836 469	1 518 546 079	1 120 964 282	626 885 022	3 136 329 288	18 170 391 796	4 406 406 376
PAYE	225 790 772	688 403 322	656 874 222	729 337 783	2 924 834 438	2 039 696 854	1 692 266 579	1 425 677 621	3 489 712 265	13 872 593 856	2 550 343 753
VAT	1 847 710 842	3 155 750 904	1 564 715 689	1 243 876 729	3 756 615 141	4 176 670 166	3 531 267 983	2 305 255 021	5 416 888 549	26 998 751 024	622 085
STC	12 873 745	106 524 438	254 371 480	87 351 340	188 030 260	97 306 076	95 898 687	269 341 567	2 457 938 008	3 569 635 601	1 773 324 952
Sub-Total	**7 853 207 920**	**7 046 010 997**	**6 951 622 291**	**3 805 325 352**	**12 655 825 008**	**10 344 136 062**	**7 789 017 892**	**5 588 753 277**	**18 072 943 433**	**80 106 842 232**	**10 333 223 672**
Diesel	1 434 090	4 938 274	6 894 223	9 171 842	114 068 308	70 019 104	90 904 350	56 056 302	62 521 760	416 008 253	-
SDL	66 518 815	67 122 163	90 723 120	101 889 854	418 678 453	185 163 526	125 054 131	85 660 990	233 875 107	1 374 686 159	107 844 967
UIF	123 824 923	109 679 254	106 956 027	125 055 674	489 658 386	314 811 594	268 016 640	236 384 589	403 090 540	2 177 477 627	110 731 015
Customs and Excise	353 207 032	34 751 032	267 891 754	37 896 332	131 787 413	322 337 832	-	312 271 724	-	1 460 143 119	-
Taxes and Duties Debt	**8 398 192 780**	**7 262 501 720**	**7 424 087 415**	**4 079 339 054**	**13 810 017 568**	**11 236 468 118**	**8 272 993 013**	**6 279 126 882**	**18 772 430 840**	**85 535 157 390**	**10 551 799 654**
Adminstrative Penalties	400 629 626	618 057 433	521 855 625	302 017 785	623 900 639	181 410 229	-	-	-	2 647 871 337	-
Estate duty	11 673 048	10 555 309	20 604 765	25 434 110	94 525 547	106 586 950	92 367 976	-	-	361 747 705	-
Small Business Amnesty Levy	170 642	61 349	745 609	2 692 882	19 126 590	35 639 322	4 162 808	225 943	-	62 825 145	-
Total Taxpayer Debt	**8 810 666 096**	**7 891 175 811**	**7 967 293 414**	**4 409 483 831**	**14 547 570 344**	**11 560 104 619**	**8 369 523 797**	**6 279 352 825**	**18 772 430 840**	**88 607 601 577**	**10 551 799 654**

ANNEXURE 1.2

SARS considered it appropriate that the three categories of taxpayer debt namely taxes, duties and administrative penalties be consolidated as overdue debt.

In terms of taxes not yet due, this debt was included last year on page 81 of the 2010/11 Annual Report. As the focus of collection efforts is on overdue debt, SARS considered it appropriate to separate debt not yet due from overdue debt.

Both numbers are reported below for information purposes, however these are seperately disclosed.

TAXES: Unaudited overdue taxpayer debt (receivables) as at 31 March 2011

2010/2011	1 - 3 Months	4 - 6 Months	7 - 8 Months	More than 9 Months	Interest	Total	Returns Received: Taxes not yet Due (Previously "New Debt")
	Rands	Rands	Rands	Rands	Rands	Rands	Rands
Income Tax	4 185 075 542	1 465 328 643	1 075 066 100	18 613 505 449	11 094 553 535	36 433 529 269	2 851 860 466
Individuals	1 657 456 210	845 561 008	503 748 632	8 516 227 511	4 869 944 120	16 392 937 481	944 503 813
Trusts	147 168 131	82 954 003	20 831 467	263 388 571	185 832 820	700 174 992	135 227 601
Companies	2 380 451 201	536 813 632	550 486 001	9 833 889 367	6 038 776 595	19 340 416 796	1 772 129 052
PAYE	443 363 352	571 427 283	755 849 276	9 880 361 308	3 401 338 712	15 052 339 931	3 248 748 655
VAT	1 174 472 842	808 290 811	676 361 194	18 933 482 807	5 079 531 545	26 672 139 199	344 619
STC	228 910 696	74 802 332	37 775 915	1 711 726 888	854 895 256	2 908 111 087	211 342 702
Sub-Total	**6 031 822 432**	**2 919 849 069**	**2 545 052 485**	**49 139 076 452**	**20 430 319 048**	**81 066 119 486**	**6 312 296 442**
Diesel	-	-	2 462 174	28 880 742	17 833 108	49 176 024	-
SDL	34 171 922	104 140 388	115 529 993	893 421 224	256 148 936	1 403 412 463	123 354 193
UIF	175 060 252	131 944 321	163 698 216	1 343 675 298	428 068 742	2 242 446 829	146 078 440
Total Tax Debt	**6 241 054 606**	**3 155 933 778**	**2 826 742 868**	**51 405 053 716**	**21 132 369 834**	**84 761 154 802**	**6 581 729 075**

DUTIES: Unaudited overdue taxpayer debt (receivables) as at 31 March 2011			
2010/11	**Debt**	**Interest**	**Total**
	Rands	**Rands**	**Rands**
Customs Duty	492 420 418	133 716 625	626 137 043
Value-added Tax	252 671 783	87 863 090	340 534 873
Surcharge	8 650	9 169	17 819
Fuel Levy	13 102 212	386 870	13 489 082
P2A - Excise Duty	21 055 055	3 146 208	24 201 263
P2B - Ad Valorem	15 116 054	6 267 643	21 383 697
Penalties	72 235 370	-	72 235 370
Forfeiture	256 859 759	-	256 859 759
Total Duties Debt	**1 123 469 301**	**231 389 605**	**1 354 858 906**

Total Taxes and Duties debt as per prior basis of the 2010/11 Annual Report 86 116 013 708 *

Note:

* The disclosure of tax and duties debt in the prior financial year was in a state of transition and as a result certain differences amounting to R23 112 496 arose last year between the disclosure on the prior basis on pages 81 and 83 of the 2010/11 Annual Report when compared to the new basis.

In addition administrative penalty debt of R989 657 135, estate duty debt of R390 071 914 and small business amnesty levy debt of R61 587 223 was not previously reported.

Summary of adjusted overdue debt for last year:

Total Taxes and Duties overdue debt as per pages 81 and 83 of the 2010/11 Annual Report	**86 116 013 708**
Adjustment arising on extract - timing difference	(23 112 496)
Total Taxes and Duties overdue debt as per page 24 of the 2010/11 Annual Report	**86 092 901 212**
Administrative penalty debt not previously reported	989 657 135
Estate duty debt not previously reported	390 071 914
Small Business Amnesty levy debt not previously reported	61 587 223
Total Taxpayer Overdue Debt	**87 534 217 484**

ANNEXURE 2.1

TAXES: Unaudited taxpayer credits (payables) as at 31 March 2012	
2011/12	Total Credits **(Rands)**
Income tax	(10 787 756 477)
Unallocated payments	(16 147 728)
Income Tax	**(10 803 904 205)**
PAYE	(4 538 925 093)
Unallocated payments*	(3 993 683 958)
Returns not received	497 774 699
PAYE	**(8 034 834 352)**
VAT	(21 526 914 211)
Unallocated payments	(2 662 670 734)
Returns not received	2 761 343 823
VAT	**(21 428 241 122)**
UIF	(500 438 739)
Returns not received	130 079 121
UIF	**(370 359 618)**
SDL	(404 681 278)
Returns not received	110 914 596
SDL	**(293 766 682)**
Diesel	(1 160 430 077)
Returns not received	16 413 819
Diesel	**(1 144 016 258)**
STC	(827 288 328)
Unallocated payments	(1 656 626 709)
STC	**(2 483 915 037)**
Estate duty	(2 102 644 087)
Returns not received	2 102 644 087
Estate duty	**-**
Small Business Amnesty levy	(7 513 272)
Small Business Amnesty levy	**(7 513 272)**
Total Taxpayer Credits	**(44 566 550 546)**

Note:

* Unallocated payments were disclosed last year as New Employers Account. This year the unallocated payments are disclosed under each tax type.

ANNEXURE 2.2

TAXES: Unaudited taxpayer credits (payables) as at 31 March 2011	
2010/11	**Total Credits (Rands)**
Income tax	(13 233 952 239)
Income tax	**(13 233 952 239)**
PAYE	(6 981 641 689)
Returns not received	5 269 455 494
PAYE	**(1 712 186 195)**
New Employers Account	(3 385 877 827)
Returns not received	3 385 877 827
New Employers Account	**-**
VAT	(32 524 640 845)
Returns not received	4 755 342 850
VAT	**(27 769 297 995)**
UIF	(414 139 233)
Returns not received	181 051 576
UIF	**(233 087 657)**
SDL	(577 783 975)
Returns not received	158 019 482
SDL	**(419 764 493)**
Sub-Total	**(43 368 288 579)**
STC	(1 100 565 924)
Total Taxpayer Credits **	**(44 468 854 503)**

Note:

** The disclosure of the taxpayer credits in the prior financial year was in a state of transition, and as a result certain differences amounting to R5 335 634 067 arose last year between the disclosure on the prior basis on page 82 of the 2010/11 Annual Report when compared to the new basis.

The differences as summarised below, reflect the adjusted taxpayer credit amount for last year:

Total taxpayer credits as per page 82 of the 2010/11 Annual Report	**(44 468 854 503)**
New Employers Account representing unallocated payments deducted in error	(3 385 877 827)
Unallocated payments data extract timing difference	(1 554 003 456)
Diesel credits omitted in error	(411 806 953)
Other data extract timing difference	16 054 168
Total taxpayer credits as per page 25 of the 2010/11 Annual Report	**(49 804 488 571)**
Small Business Amnesty levy credit not previously reported	(7 386 041)
Total taxpayer credits at 31 March 2011 restated	**(49 811 874 612)**

OWN ACCOUNTS

ANNUAL FINANCIAL STATEMENTS - 31 MARCH 2012

CONTENTS

The annual financial statements set out on pages 101 to 156, which have been prepared on the going concern basis, were approved and signed by:

Oupa Magashula

Oupa G. Magashula
SARS Commissioner

27 July 2012

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN REVENUE SERVICE (SARS): OWN ACCOUNTS

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

I have audited the consolidated and separate financial statements of the South African Revenue Service (SARS): Own Accounts and its subsidiary set out on pages 101 to 156 which comprise the consolidated and separate statement of financial position as at 31 March 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the consolidated financial statements

The accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act no. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the SARS: Own Accounts and its subsidiary as at 31 March 2012, and their financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 57 to 62 of the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information.*

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations

I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

Auditor-General

Pretoria

31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT BY THE SARS ACCOUNTING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2012

INTRODUCTION

The Accounting Authority presents his Annual Report that forms part of the Annual Financial Statements of SARS Own Accounts for the year ended 31 March 2012. Specific reference has been made to Administered Revenue where applicable, otherwise all other statistics quoted are for Own Accounts.

The South African Revenue Service (SARS) was established in terms of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) as an organ of the state within the public administration, but as an institution outside the public service. It is listed as a national public entity in schedule 3A of the Public Finance Management Act, 1999, (PFMA).

In terms of the SARS Act, 1997, the Commissioner for SARS is the Chief Executive Officer and Accounting Authority of SARS.

EXECUTIVE MEMBERS

The Executive Committee (EXCO) is an oversight committee of SARS and is accountable to the Commissioner. Its powers and terms of reference are delegated and approved by the Commissioner.

The EXCO members that served during the 2012 Financial Year were:	
Oupa Magashula	Commissioner & EXCO Chairperson
Ivan Pillay	Deputy Commissioner
Barry Hore	Chief Operating Officer
Kosie Louw	Chief Officer: Legal & Policy
Trix Coetzer	Chief Financial Officer
Gene Ravele	Chief Officer: Customs & Border Management
Elsie Pule	Chief Officer: Human Resources
Sunita Manik	Group Executive: Large Business Centre (From May 2011)
Bob Head	Special Advisor: Commissioner (From March 2012)

Resignations

There were no resignations from the EXCO during the year under review.

ORGANISATIONAL STRUCTURE

The organisational structure of SARS is reviewed as and when the need arises to enable it to fulfil its obligations towards Parliament and the Constitution.

PRINCIPAL ACTIVITIES

The SARS Act, 1997, gives the entity the mandate to perform the following tasks:

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

REVIEW OF OPERATIONS AND RESULTS (AMOUNTS DISCLOSED IN R' 000)

OWN ACCOUNTS

The Revenue for the year was made up as follows:

	% change	2012	2011
Operating revenue	6.33%	8 665 648	8 149 729
-Transfers from government entities / National Treasury	6.33%	8 653 573	8 138 108
- Rendering of Services		12 075	11 621
Other Income	20.48%	422 438	350 617
- Interest received	26.19%	155 677	123 364
- Other revenue	17.39%	266 761	227 253
	6.91%	**9 088 086**	**8 500 346**

The Grant from National Treasury increased in line with the approvals obtained through the Medium Term Expenditure Framework (MTEF). Interest earned fluctuated in line with interest rates and funds temporarily available for investment.

Other revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund contributions (UIF) in terms of the Unemployment Insurance Contributions Act, 2002 and Skills Development Levies (SDL) in terms of the Skills Development Levies Act, 1999.

In addition to the commissions earned, SARS also applied for and received payments from Fasset via the Department of Higher Education and Training for SARS's contribution to skills development in the form of training provided internally. SARS is entitled to claim a grant equivalent to 50% of the total levies paid by SARS as an employer to the Skills Development Fund in accordance with the Skills Development Act, 1998 (Act No.97 of 1998).

The surplus for the year was as follows:

		2012	2011
Balance accumulated surplus at 1 April as previously reported		2 232 170	1 271 104
Change in accounting policy		-	-
Prior year adjustments		250	-
Restated balance 1 April		2 232 420	1 271 104
Net (deficit)/surplus for the year		(387 008)	961 066
Transfer of capital reserve to accumulated surplus		32 364	-
Balance accumulated surplus at 31 March		**1 877 776**	**2 232 170**

ADMINISTERED REVENUE (AMOUNTS DISCLOSED IN R'000)

The net revenue for the year was R755 396 595 (2011: R686 311 306). Administered Revenue does not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

Revenue for Administered Revenue comprises the taxes, levies, duties, fees and other monies collected for the year. The net revenue is the amount collected after deduction of payments made by the National Treasury to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2012	2011
Total revenue	10.36%	777 156 560	704 216 985
SA Customs Union Agreement	21.53%	21 759 965	17 905 679
Net revenue	**10.07%**	**755 396 595**	**686 311 306**

Revenue collected is a function of the prevailing economic conditions, their effect on the South African economy and the level of compliance.

JUDICIAL PROCEEDINGS

SARS has been mandated by the provisions of the SARS Act to perform legal acts, or institute or defend any legal action in its own name. By virtue of its mandate SARS is involved in litigation on a continuous basis.

REVIEW OF THE FINANCIAL POSITION

Reserves and accumulated surplus:

Reserves and surpluses consist mainly of the initial capital reserve on the establishment of SARS, the reserve for revaluation of assets and accumulated surpluses. The initial capital reserve on establishment of SARS has been reallocated to accumulated surpluses in accordance with advice from National Treasury.

ASSETS

For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives.

SURRENDER OF SURPLUS FUNDS (AMOUNTS DISCLOSED IN R'000)

SARS surrendered surplus funds during the financial year under review in cash amounting to R408 000 to National Treasury and provided for an obligation to surrender surplus funds from the 2012 financial year amounting to R793 934.

CONTROLLED ENTITY NAME CHANGE

During the 2012 financial year the controlled entity of SARS had a change of names from Clidet No 967 (Pty) Ltd to International Frontier Technologies SOC Ltd trading as Interfront SOC Ltd.

PUBLIC/PRIVATE PARTNERSHIPS

There are currently no Public/Private Partnerships in operation or underconsideration.

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (AMOUNTS DISCLOSED IN R'000)

SARS had entered into negotiations with the title holder of the Alberton Campus before 31 March 2012 to settle the finance lease early and become the legal title holder of the property. The settlement amount has provisionally been agreed upon at R120 000 excluding VAT. It is anticipated that the transaction will be finalised and accounted for in the 2013 financial year.

ADDRESSES

The entity's business, postal and registered addresses are:

Business address	**Postal address**	**Registered address**
299 Bronkhorst Street	Private bag X923	299 Bronkhorst street
Nieuw Muckleneuk	Pretoria	Nieuw Muckleneuk
0181	0001	0181

Addresses for other SARS offices are available from SARS.

Oupa Magashula

Oupa G. Magashula
SARS Commissioner

14 August 2012

SOUTH AFRICAN REVENUE SERVICE
ANNUAL FINANCIAL STATEMENTS: OWN ACCOUNTS
STATEMENT OF FINANCIAL POSITION
As at 31 March 2012

		Economic entity		Controlling entity	
		2012	2011	2012	2011
	Note(s)	R '000	R '000	R '000	R '000
Assets					
Current Assets					
Trade and other receivables	4	72 826	47 891	70 562	44 426
Prepayments	25	61 422	65 623	61 422	65 623
Cash and cash equivalents	5	2 473 848	2 162 518	2 470 377	2 160 625
		2 608 096	**2 276 032**	**2 602 361**	**2 270 674**
Non-Current Assets					
Property plant and equipment	6	1 013 558	952 863	1 007 748	944 234
Intangible assets	7	863 731	732 655	881 149	696 870
Investment in controlled entity	8	-	-	-	-
Loan to controlled entity	9	-	-	75 218	81 554
Deferred Tax		719	497	-	-
		1 878 008	**1 686 015**	**1 964 115**	**1 722 658**
Total Assets		**4 486 104**	**3 962 047**	**4 566 476**	**3 993 332**
Liabilities					
Current Liabilities					
Finance lease obligation	11	23 132	20 810	23 043	20 732
Trade and other payables	12	635 378	588 565	634 316	582 620
VAT payable		813	5 308	-	-
Deferred income	13	244	255	244	255
Provisions	14	1 252 113	420 710	1 250 609	419 301
		1 911 680	**1 035 648**	**1 908 212**	**1 022 908**
Non-Current Liabilities					
Finance lease obligation	11	129 036	138 702	129 003	138 580
Operating lease liability		287 035	273 611	286 655	273 329
Deferred income	13	146	226	146	226
Leave pay accrual		203 289	178 842	203 289	178 842
		619 506	**591 381**	**619 093**	**590 977**
Total Liabilities		**2 531 186**	**1 627 029**	**2 527 305**	**1 613 885**
Net Assets		**1 954 918**	**2 335 018**	**2 039 171**	**2 379 447**
Net Assets Reserves					
Asset revaluation reserve	15	77 142	70 234	77 142	70 234
Capital reserve on establishment	16	-	32 364	-	32 364
Accumulated surplus		1 877 776	2 232 420	1 962 029	2 276 849
Total Net Assets		**1 954 918**	**2 335 018**	**2 039 171**	**2 379 447**

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2012

		Economic entity		Controlling entity	
		2012	2011	2012	2011
	Note(s)	R '000	R '000	R '000	R '000
Revenue					
Interest received		155 677	123 364	162 158	123 090
Other income	18	266 761	227 253	266 761	227 143
Rendering of services	17	12 075	11 621	-	-
Transfers from government entities	17	8 653 573	8 138 108	8 653 573	8 138 108
Total Revenue		**9 088 086**	**8 500 346**	**9 082 492**	**8 488 341**
Expenditure					
Employee cost		(5 560 282)	(5 009 185)	(5 502 519)	(4 985 540)
Depreciation and amortisation		(454 852)	(425 707)	(451 467)	(423 090)
Impairment loss	19	(7 402)	(6 695)	(33 224)	73 042
Finance cost	20	(21 389)	(21 088)	(21 366)	(21 066)
Other expenses		(4 059)	(3 103)	(1 774)	(3 103)
Administrative expenses		(1 521 349)	(1 450 913)	(1 517 113)	(1 446 670)
Professional and special services		(702 896)	(623 354)	(699 126)	(619 279)
Total Expenditure		**(8 272 229)**	**(7 540 045)**	**(8 226 589)**	**(7 425 706)**
(Loss)/Gain on disposal of assets and liabilities		(1 153)	518	(1 153)	518
Surrender of surplus funds		(1 201 934)	-	(1 201 934)	-
Taxation	21	222	497	-	-
(Deficit) Surplus for the year		**(387 008)**	**961 316**	**(347 184)**	**1 063 153**

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2012

	Revaluation Reserve	Capital Reserve	Total Reserves	Accumulated Surplus	Total Net Assets
	R '000	R '000	R '000	R '000	R '000
Economic entity					
Balance at 01 April 2010	**29 404**	**32 364**	**61 768**	**1 271 104**	**1 332 872**
Changes in net assets					
Surplus in revaluation of property	41 035	-	41 035	-	41 035
Depreciation based on the revalued portion of assets	(205)	-	(205)	-	(205)
Net income (losses) recognised directly in net assets	40 830	-	40 830	-	40 830
Surplus for the year	-	-	-	961 316	961 316
Total recognised income and expenses for the year	**40 830**	**-**	**40 830**	**961 316**	**1 002 146**
Total changes	**40 830**	**-**	**40 830**	**961 316**	**1 002 146**
Opening balance as previously reported	70 234	32 364	102 598	2 232 170	2 334 768
Adjustments					
Prior year adjustments	-	-	-	250	250
Balance at 01 April 2011 as restated	**70 234**	**32 364**	**102 598**	**2 232 420**	**2 335 018**
Changes in net assets					
Surplus for the year	-	-	-	(387 008)	(387 008)
Surplus in revaluation of land and buildings	9 175	-	9 175	-	9 175
Depreciation based on the revalued portion of assets	(2 267)	-	(2 267)	-	(2 267)
Transfer of capital reserve to accumulated reserve	-	(32 364)	(32 364)	32 364	-
Total changes	**6 908**	**(32 364)**	**(25 456)**	**(354 644)**	**(380 100)**
Balance at 31 March 2012	**77 142**	**-**	**77 142**	**1 877 776**	**1 954 918**
Note(s)	15	16			

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2012

	Revaluation Reserve	Capital Reserve	Total Reserves	Accumulated Surplus	Total Net Assets
	R '000	R '000	R '000	R '000	R '000
Controlling entity					
Balance at 01 April 2010 as restated	**29 404**	**32 364**	**61 768**	**1 213 696**	**1 275 464**
Changes in net assets					
Surplus in revaluation of property	41 035	-	41 035	-	41 035
Depreciation based on the revalued portion of assets	(205)	-	(205)	-	(205)
Net income (losses) recognised directly in net assets	40 830	-	40 830	-	40 830
Surplus for the year	-	-	-	1 063 153	1 063 153
Total recognised income and expenses for the year	**40 830**	**-**	**40 830**	**1 063 153**	**1 103 983**
Total changes	**40 830**	**-**	**40 830**	**1 063 153**	**1 103 983**
Opening balance as previously reported	70 234	32 364	102 598	2 276 599	2 379 197
Adjustments					
Prior year adjustments	-	-	-	250	250
Balance at 01 April 2011 as restated	**70 234**	**32 364**	**102 598**	**2 276 849**	**2 379 447**
Changes in net assets					
Surplus for the year	-	-	-	(347 184)	(347 184)
Surplus in revaluation of land and buildings	9 175	-	9 175	-	9 175
Depreciation based on the revalued portion of assets	(2 267)	-	(2 267)	-	(2 267)
Transfer of capital reserve to accumulated surplus	-	(32 364)	(32 364)	32 364	-
Total changes	**6 908**	**(32 364)**	**(25 456)**	**(314 820)**	**(340 276)**
Balance at 31 March 2012	**77 142**	**-**	**77 142**	**1 962 029**	**2 039 171**
Note(s)	15	16			

CASH FLOW STATEMENT

For the year ended 31 March 2012

		Economic entity		Controlling entity	
		2012	2011	2012	2011
	Note(s)	R '000	R '000	R '000	R '000
Cash flows from operating activities					
Receipts					
Sale of goods and services		5 505	16 314	-	-
Grants		8 653 573	8 138 108	8 653 573	8 138 108
Interest income		147 106	125 563	153 587	125 289
Other receipts		249 283	217 361	249 279	217 251
		9 055 467	**8 497 346**	**9 056 439**	**8 480 648**
Payments					
Employee costs		(5 474 193)	(4 887 237)	(5 418 668)	(4 865 273)
Suppliers		(2 184 941)	(2 050 855)	(2 170 994)	(2 041 721)
Tax paid	10	-	(5 135)	-	-
Surrender of surplus funds		(408 000)	-	(408 000)	-
		(8 067 134)	**(6 943 227)**	**(7 997 662)**	**(6 906 994)**
Net cash flows from operating activities	**22**	**988 333**	**1 554 119**	**1 058 777**	**1 573 654**
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(351 127)	(340 407)	(350 640)	(329 239)
Proceeds from sale of property, plant and equipment		684	5 345	684	5 332
Purchase of other intangible assets	7	(297 827)	(391 301)	(350 951)	(429 193)
Capitalised development costs	7	-	(22 106)	-	-
Loan advanced to controlled entity		-	-	(19 486)	(1 817)
Net cash flows from investing activities		**(648 270)**	**(748 469)**	**(720 393)**	**(754 917)**
Cash flows from financing activities					
Finance lease and interest payments		(28 733)	(16 839)	(28 632)	(17 039)
Net increase/(decrease) in cash and cash equivalents		311 330	788 811	309 752	801 698
Cash and cash equivalents at the beginning of the year		2 162 518	1 373 707	2 160 625	1 358 927
Cash and cash equivalents at the end of the year	**5**	**2 473 848**	**2 162 518**	**2 470 377**	**2 160 625**

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the economic entity presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entities, including special purpose entities, which are controlled by the controlling entity.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of the controlled entity are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation, except for VAT on inter company transactions. This is due to the fact that SARS is not a registered VAT vendor.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements and estimates include:

Loans and receivables

The economic entity assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the economic entity for similar financial instruments.

1. Presentation of Annual Financial Statements (continued)

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumed future cashflows from assets may change which may then impact the estimations and require a material adjustment to the carrying value of assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could change materially over time. They are significantly affected by a number of factors including production estimates together with economic factors such as supply and demand.

Provisions

Provisions were raised and management was prudent in determining estimates based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The economic entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The economic entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the economic entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the economic entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Allowance for doubtful debts

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

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use for administrative purposes and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- the cost of the item can be measured reliably

1. Presentation of Annual Financial Statements (continued)

1.3 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

1. Presentation of Annual Financial Statements (continued)

1.3 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	15 years to 50 years
Plant and equipment	7 years to 10 years
Furniture, fittings and office equipment	3 years to 6 years
Motor vehicles	5 years
Computer equipment	3 years to 5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is shorter
Generators	10 years
Security equipment	5 years

The residual value, useful life and depreciation method of each asset are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separate from the economic entity or from other rights and obligations

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity and
- the cost or fair value of the asset can be measured reliably

Intangible assets are initially recognised at cost.

For an intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it
- there is an ability to use or sell it
- it will generate probable future economic benefits or service potential
- there are available technical, financial and other resources to complete the development and to use or sell the asset

1. Presentation of Annual Financial Statements (continued)

1.4 Intangible assets (continued)

- the expenditure attributable to the asset during its development can be measured reliably

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.
Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Intellectual Property	Indefinite
Computer software	5 years

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

The useful life of IT software was reviewed at the end of the prior reporting date and changed from 3 years to 5 years. The change was accounted for as a change in accounting estimates.

1.5 Investment in controlled entity

Economic entity annual financial statements

The economic entity annual financial statements include those of the controlling entity and its controlled entity. The revenue and expenses of the controlled entity are included from the effective date of acquisition.

Controlling entity's annual financial statements

In the entity's separate annual financial statements, investment in the controlled entity is carried at cost less any accumulated impairment.

The cost of an investment in the controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the entity, plus
- any costs directly attributable to the purchase of the controlled entity

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective

1. Presentation of Annual Financial Statements (continued)

1.6 Financial instruments (continued)

interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash
- a residual interest of another entity, or
- a contractual right to:
  - receive cash or another financial asset from another entity, or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under agreed terms and conditions.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition, or
- are held for trading

1. Presentation of Annual Financial Statements (continued)

1.6 Financial instruments (continued)

Financial instruments at fair value comprise of financial assets or financial liabilities which are instruments designated at fair value.

Classification

The entity has the following types of financial assets (classes and categories) as reflected in the statement of financial position or in the notes thereto:

Class	Category
Loan to controlled entity	Financial asset measured at amortised cost
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and categories) as reflected in the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and categories) as reflected in the statement of financial position or in the notes thereto:

Class	Category
Investment in controlled entity	Measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value
- Financial instruments at amortised cost

All financial assets measured at amortised cost are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the

1. Presentation of Annual Financial Statements (continued)

1.6 Financial instruments (continued)

entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired through the amortisation process.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost model would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, are settled or waived.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished.

1. Presentation of Annual Financial Statements (continued)

1.6 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as an income or an expense and included in surplus or deficit for the period.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1. Presentation of Annual Financial Statements (continued)

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the economic entity.

1. Presentation of Annual Financial Statements (continued)

1.9 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation or amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the economic entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash- generating unit).

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash- generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero

1. Presentation of Annual Financial Statements (continued)

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The economic entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation or amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An impairment loss recognised for goodwill shall not be reversed in subsequent periods.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees

1. Presentation of Annual Financial Statements (continued)

1.10 Employee benefits (continued)

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Provisions and contingencies

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the obligation

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1. Presentation of Annual Financial Statements (continued)

1.11 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised but are disclosed in note 30.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity
- the stage of completion of the transaction at the reporting date can be measured reliably
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1. Presentation of Annual Financial Statements (continued)

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured as the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.14 Government grants

SARS's main 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 Revenue.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1. Presentation of Annual Financial Statements (continued)

1.16 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Research and development expenditure

Research costs are charged against operating surplus as incurred.

Development costs are recognised as assets when the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably
- The technical feasibility of the product or process can be demonstrated
- The existence of a market or, if to be used internally rather than sold, its usefulness to the economic entity can be demonstrated
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process
- The asset must be separately identifiable

1.19 Related parties

The economic entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by that management, in their dealings with the economic entity.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board on a basis consistent with the prior year, except for the formulation of the Transfer of Functions between Entities under Common Control policy based on the principles of GRAP 105.

Transfer Of Functions Between Entities Under Common Control

During the year, the economic entity formulated an accounting policy based on GRAP105 – Transfer Of Functions Between Entities Under Common Control with respect to the treatment of the Capital Reserve on Establishment. The economic entity now recognises the surplus of assets over liabilities transferred from Government on 1 October 1997 in accumulated surplus.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 31 March 2012 is as follows:

Statement of Financial Position

Increase in Accumulated Surplus	32 363 631
Decrease in Capital Reserve	(32 363 631)
	-

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2013	Adoption of this standard will result in additional disclosure for the entity
GRAP 25: Employee benefits	01 April 2013	The impact of this standard may be material even though the current policy is based on GRAP 25
GRAP 104: Financial Instruments	01 April 2012	The impact of this standard is not expected to be material as the current Financial Instruments policy is based on GRAP 104
GRAP 20: Related parties	01 April 2013	The adoption of this standard is not expected to impact on the results of the entity

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
4. Trade and other receivables				
Government departments	49 206	32 602	49 206	32 602
Other receivables	14 702	6 249	15 693	6 249
Trade debtors	3 240	3 450	-	-
Deposits	3 095	3 049	3 080	3 034
Staff accounts receivables	2 472	2 448	2 472	2 448
Advanced Tax Ruling (ATR) debtors	111	93	111	93
	72 826	**47 891**	**70 562**	**44 426**

Fair value of trade and other receivables

Trade and other receivables	72 826	47 891	70 562	44 426

Trade and other receivables are carried at original invoice amounts, which approximates fair value, less provision made for impairment of these receivables.

Trade and other receivables past due but not impaired

At 31 March 2012 R 3 869 045 (2011: R 4 469 027) were past due but not impaired.

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

1 month past due	2 258	4 184	174	4 184
2 months past due	921	-	7	-
3 months and more past due	690	285	571	274

Included in the 3 months and more past due balance is an amount of R 498 670 relating to the Government Pensions Administration Fund who paid the balance subsequent to the accounting date.

Trade and other receivables impaired

As at 31 March 2012 trade and other receivables of R 4 038 566 (2011: R 3 205 538) were impaired and provided for.

The ageing of these receivables is as follows:

1 to 3 months	260	866	260	866
Over 3 months	3 779	2 339	1 494	2 339

Reconciliation of provision for impairment of trade and other receivables

Opening balance	3 205	4 383	3 205	4 383
Provision for impairment	1 810	1 065	(475)	1 065
Amounts written off as uncollectable	(976)	(2 243)	(976)	(2 243)
	4 039	**3 205**	**1 754**	**3 205**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

4. Trade and other receivables (continued)

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The economic entity does not hold any collateral as security.

5. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011	2012	2011
Bank balances	2 473 377	2 162 061	2 469 912	2 160 176
Cash on hand	471	457	465	449
	2 473 848	**2 162 518**	**2 470 377**	**2 160 625**

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

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

6. Property, plant and equipment

Economic entity	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
IT equipment	848 509	(532 095)	316 414	746 675	(458 925)	287 750
Furniture, fittings and office equipment	372 840	(224 368)	148 472	349 158	(205 685)	143 473
Leasehold improvements	404 384	(272 799)	131 585	347 734	(237 501)	110 233
Buildings	208 140	(35 125)	173 015	198 965	(26 497)	172 468
Motor vehicles	138 747	(71 795)	66 952	127 334	(61 076)	66 258
Security equipment	139 006	(47 662)	91 344	95 554	(29 600)	65 954
Generators	46 767	(11 504)	35 263	41 189	(7 052)	34 137
Land	40 030	-	40 030	40 030	-	40 030
Assets under construction	4 643	-	4 643	24 782	-	24 782
Plant and equipment	18 475	(12 635)	5 840	18 276	(10 498)	7 778
Total	**2 221 541**	**(1 207 983)**	**1 013 558**	**1 989 697**	**(1 036 834)**	**952 863**

6. Property, plant and equipment (continued)

Contoling entity	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
IT equipment	842 433	(528 375)	314 058	741 032	(457 313)	283 719
Furniture, fittings and office equipment	371 967	(224 054)	147 913	348 320	(205 555)	142 765
Leasehold improvements	399 855	(271 021)	128 834	343 205	(236 693)	106 512
Buildings	208 140	(35 125)	173 015	198 965	(26 497)	172 468
Motor vehicles	138 747	(71 795)	66 952	127 334	(61 076)	66 258
Security equipment	138 988	(47 660)	91 328	95 554	(29 600)	65 954
Generators	46 563	(11 428)	35 135	40 985	(7 017)	33 968
Land	40 030	-	40 030	40 030	-	40 030
Assets under construction	4 643	-	4 643	24 782	-	24 782
Plant and equipment	18 475	(12 635)	5 840	18 276	(10 498)	7 778
Total	**2 209 841**	**(1 202 093)**	**1 007 748**	**1 978 483**	**(1 034 249)**	**944 234**

Figures in Rand thousand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
IT equipment	287 750	189 398	(1 238)	(564)	-	(154 128)	(4 906)	102	316 414
Leasehold improvements	110 233	43 412	(2)	19 148	-	(41 016)	(190)	-	131 585
Furniture, fittings and office equipment	143 473	45 122	(393)	6 734	-	(44 587)	(2 136)	259	148 472
Buildings	172 468	-	-	-	6 908	(6 361)	-	-	173 015
Security equipment	65 954	11 146	(3)	33 608	-	(18 991)	(375)	5	91 344
Motor vehicles	66 258	16 728	(201)	-	-	(15 673)	(160)	-	66 952
Generators	34 137	320	-	5 258	-	(4 451)	(1)	-	35 263
Land	40 030	-	-	-	-	-	-	-	40 030
Plant and equipment	7 778	199	-	-	-	(2 137)	-	-	5 840
Assets under construction	24 782	44 802	-	(64 941)	-	-	-	-	4 643
	952 863	**351 127**	**(1 837)**	**(757)**	**6 908**	**(287 344)**	**(7 768)**	**366**	**1 013 558**

Net transfers between Property, Plant and Equipment and Intangible assets as per note 7 contra each other.

Figures in Rand thousand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
IT equipment	298 641	133 317	(5 107)	7 243	-	(145 254)	(1 130)	40	287 750
Leasehold improvements	92 606	53 627	(91)	-	-	(35 924)	-	15	110 233
Furniture, fittings and office equipment	125 024	62 237	(1 873)	2 628	-	(41 710)	(2 891)	58	143 473
Buildings	138 093	-	-	-	40 733	(6 358)	-	-	172 468
Security equipment	56 524	21 390	(28)	2 076	-	(14 017)	-	9	65 954
Motor vehicles	42 300	36 930	(524)	-	-	(12 448)	-	-	66 258
Generators	29 754	(310)	-	8 772	-	(4 079)	-	-	34 137
Land	39 933	-	-	-	97	-	-	-	40 030
Plant and equipment	9 902	9	-	-	-	(2 133)	-	-	7 778
Assets under construction	12 294	33 207	-	(20 719)	-	-	-	-	24 782
	845 071	**340 407**	**(7 623)**	**-**	**40 830**	**(261 923)**	**(4 021)**	**122**	**952 863**

Figures in Rand thousand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
IT equipment	283 719	188 965	(1 238)	(564)	-	(152 020)	(4 906)	102	314 058
Leasehold improvements	106 512	43 411	(2)	19 148	-	(40 045)	(190)	-	128 834
Furniture, fittings and office equipment	142 765	45 087	(393)	6 734	-	(44 403)	(2 136)	259	147 913
Buildings	172 468	-	-	-	6 908	(6 361)	-	-	173 015
Security equipment	65 954	11 128	(3)	33 608	-	(18 989)	(375)	5	91 328
Motor vehicles	66 258	16 728	(201)	-	-	(15 673)	(160)	-	66 952
Generators	33 968	320	-	5 258	-	(4 410)	(1)	-	35 135
Land	40 030	-	-	-	-	-	-	-	40 030
Plant and equipment	7 778	199	-	-	-	(2 137)	-	-	5 840
Assets under construction	24 782	44 802	-	(64 941)	-	-	-	-	4 643
	944 234	**350 640**	**(1 837)**	**(757)**	**6 908**	**(284 038)**	**(7 768)**	**366**	**1 007 748**

Net transfers between Property, Plant and Equipment and Intangible assets as per note 7 contra each other.

Figures in Rand thousand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
IT equipment	298 587	127 720	(5 093)	7 243	-	(143 648)	(1 130)	40	283 719
Leasehold improvements	92 606	49 098	(91)	-	-	(35 116)	-	15	106 512
Furniture, fittings and office equipment	125 024	61 399	(1 873)	2 628	-	(41 580)	(2 891)	58	142 765
Buildings	138 093	-	-	-	40 733	(6 358)	-	-	172 468
Security equipment	56 524	21 390	(28)	2 076	-	(14 017)	-	9	65 954
Motor vehicles	42 300	36 930	(524)	-	-	(12 448)	-	-	66 258
Generators	29 754	(514)	-	8 772	-	(4 044)	-	-	33 968
Land	39 933	-	-	-	97	-	-	-	40 030
Plant and equipment	9 902	9	-	-	-	(2 133)	-	-	7 778
Assets under construction	12 294	33 207	-	(20 719)	-	-	-	-	24 782
	845 017	**329 239**	**(7 609)**	**-**	**40 830**	**(259 344)**	**(4 021)**	**122**	**944 234**

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
6. Property, plant and equipment (continued)				
Assets subject to finance lease (Net carrying amount)				
Buildings	169 410	168 887	169 410	168 887
Land	39 835	39 835	39 835	39 835
Furniture, fittings and office equipment	37 268	35 768	37 176	35 604
	246 513	**244 490**	**246 421**	**244 326**

Revaluations

The effective date of the revaluations was 31 March 2012. Revaluations were performed by WJ Hewitt (NDPV, C.I.E.A., FIV (SA)), Professional valuer of Mills Fitchet (TVL) cc as well as JA Banitz, Candidate Valuer (Registration No. 4460) of RCiR Valuations Pty Ltd and BW Davis, Professional Associated Valuer of RCiR Valuations Pty Ltd (Registration No. 4370).

The valuation was performed using the discounted cash flow approach and the following assumptions were used:

Discount rate	16%
Capitalisation rate	10%
Period	6 years

These assumptions were based on market conditions prevailing at the time.

The carrying value of the revalued assets under the cost model would have been:

Buildings	134 657	141 446	134 657	141 446
Land	40 274	40 274	40 274	40 274

Other information

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)				
Property, plant and equipment	285 241	280 483	285 241	280 463

Figures in Rand thousand

7. Intangible assets

Economic entity	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 315 293	(744 266)	571 027	1 020 547	(575 353)	445 194
Software under development	219 121	-	219 121	213 878	-	213 878
Intellectual property and other rights	73 583	-	73 583	73 583	-	73 583
	1 607 997	**(744 266)**	**863 731**	**1 308 008**	**(575 353)**	**732 655**

Controlling entity	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 314 705	(744 133)	570 572	1 020 220	(575 298)	444 922
Software under development	310 577	-	310 577	251 948	-	251 948
	1 625 282	**(744 133)**	**881 149**	**1 272 168**	**(575 298)**	**696 870**

Figures in Rand thousand

7. Intangible assets (continued)

Reconciliation of intangible assets - Economic entity 2012

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	445 194	41 788	251 553	(167 508)	571 027
Software under development	213 878	256 039	(250 796)	-	219 121
Intellectual property and other rights	73 583	-	-	-	73 583
	732 655	**297 827**	**757**	**(167 508)**	**863 731**

Net transfers between Property, Plant and Equipment and Intangible assets as per note 6 contra each other.

Reconciliation of intangible assets - Economic entity 2011

	Opening balance	Additions	Transfers	Revaluations	Amortisation	Total
Computer software	325 504	140 934	142 540	-	(163 784)	445 194
Software under development	106 051	250 367	(142 540)	-	-	213 878
Intellectual property and other rights	51 477	-	-	22 106	-	73 583
	483 032	**391 301**	**-**	**22 106**	**(163 784)**	**732 655**

Figures in Rand thousand

7. Intangible assets (continued)

Reconciliation of intangible assets - Controlling entity - 2012

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	444 922	41 526	251 553	(167 429)	570 572
Software under development	251 948	309 425	(250 796)	-	310 577
	696 870	**350 951**	**757**	**(167 429)**	**881 149**

Net transfers between Property, Plant and Equipment and Intangible assets as per note 6 contra each other.

Reconciliation of intangible assets - Controlling entity - 2011

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	325 372	140 756	142 540	(163 746)	444 922
Software under development	106 051	288 437	(142 540)	-	251 948
	431 423	**429 193**	**-**	**(163 746)**	**696 870**

7. Intangible assets (continued)

Development cost capitalised

During the previous financial year development cost, consisting of personnel expenditure to the amount of R22 105 623, was capitalised to Intellectual Property.

Details of impairment test

An impairment test was performed during the financial year to determine whether the intangible asset's value should be impaired. The effective date of the valuation was 31 March 2012. The valuation was performed by the independent valuer, Ernst & Young. Ernst & Young is not connected to the entity and have recent experience in valuing similar assets.

The valuation technique adopted in undertaking this valuation has been the Discounted Cash Flow approach.

The Discounted Cash Flow approach estimates future cash flows that will flow to the entity from the assets under review. These cash flows are discounted to their present value using the effective interest rate.

This approach focuses on the income producing capability of the intangible asset i.e. Intellectual Property (IP), that best represents the present value of the future economic benefit expected to be derived from it. It reflects the present value of the net income generated by the IP after taking into account the cost to realise the revenue, and an appropriate discount rate to reflect the relative risks of the cash flow and the time value of money.

The following key inputs were used:
Interfront strategic plan forecasts, extended to 10 years using the forecast inflation rates, limited to income derived from current IP.

Average implied discount rate	17%
Tax rate	28%

The impairment test did not indicate an impairment of the Intellectual Property.

8. Investment in controlled entity

Name of company	Held by	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011
International Frontier Technologies SOC Ltd	South African Revenue Service	100%	100%	-	-

The carrying amount of the controlled entity is shown net of impairment loss. The controlled entity has a share capital of R1 (One Rand).

During the 2012 financial year Clidet No.967 (Pty) Ltd changed its name to International Frontier Technologies SOC Ltd, trading as Interfront.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
9. Loan to the controlled entity				
Controlled entity				
Interfront	-	-	102 712	89 822
	-	-	102 712	89 822
Provision for impairment of loan to controlled entity	-	-	(27 494)	(8 268)
	-	**-**	**75 218**	**81 554**

The loan is unsecured, bears no interest and is not due before 31 March 2014. Payment terms will be negotiated before the loan becomes due. SARS will provide Interfront with operational funding in accordance with pre-approved annual budgets until 31 March 2014.

The loan has been subordinated in favour of other creditors of Interfront until such time as the assets of the company, fairly valued, exceed its remaining liabilities.

Fair value of the loan to the controlled entity

Loan to controlled entity	-	-	74 736	61 416

The loan to Interfront was valued by discounting the expected future cash flows from the asset with the original effective interest rate.

Impairment of the loan to the controlled entity

As at 31 March 2012, the loan to Interfront of R 102 711 836 (2011: R 89 822 261) was impaired to the value of R27 494 069 (2011: R 8 268 029.)

The ageing of the loan, although not past due is as follows:

Current	-	-	138	1 589
1 to 6 months	-	-	2 300	33 122
Over 6 months	-	-	100 274	55 112

Reconciliation of the provision for impairment of the loan to the controlled entity

Opening balance	-	-	8 268	88 005
Provision for impairment	-	-	25 822	(79 737)
Interest income	-	-	(6 596)	-
	-	**-**	**27 494**	**8 268**

The provision for impairment of the loan to the controlled entity have been included in operating expenses in the statement of financial performance (note 19).

10. Tax paid				
Balance at beginning of the year	-	(5 135)	-	-

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
11. Finance lease obligation				
Land and buildings - Alberton lease				
Minimum lease payments due				
- within one year	23 501	21 963	23 501	21 963
- in second to fifth year inclusive	111 644	104 340	111 644	104 340
- later than five years	24 295	55 100	24 295	55 100
	159 440	181 403	159 440	181 403
less: future finance charges	(43 657)	(56 827)	(43 657)	(56 827)
Present value of minimum lease payments	**115 783**	**124 576**	**115 783**	**124 576**
Office equipment				
Minimum lease payments due				
- within one year	17 586	17 534	17 485	17 434
- in second to fifth year inclusive	37 514	35 365	37 480	35 230
	55 100	52 899	54 965	52 664
less: future finance charges	(18 715)	(17 963)	(18 702)	(17 928)
Present value of minimum lease payments	**36 385**	**34 936**	**36 263**	**34 736**
Non-current liabilities	129 036	138 702	129 003	138 580
Current liabilities	23 132	20 810	23 043	20 732
	152 168	**159 512**	**152 046**	**159 312**

Land and buildings – Alberton lease

The lessor developed the Alberton South Building for SARS at a cost of R176 108 million.

The finance lease commenced on 2 January 2006 for a twelve year period, at a rental of R1.1 million per month (exclusive of VAT); with an annual escalation of 7% (compounded) per annum.

Transfer of ownership and risks takes place at the end of the lease term provided all lease payments have been made.

Office equipment

Certain photocopiers and fax machines were capitalised and the corresponding finance lease liability raised in accordance with GRAP13. The leases are payable in 36 or 60 monthly installments.

12. Trade and other payables				
Trade accounts payables and accruals	420 511	401 785	421 783	397 915
Accruals for salary related expenses	214 403	186 321	212 069	184 246
Other payables	464	344	464	344
Donations for distributions	-	115	-	115
	635 378	**588 565**	**634 316**	**582 620**

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
13. Deferred income				
Tenant allowances	226	481	226	481
Donor funding	164	-	164	-
	390	**481**	**390**	**481**
Non-current liabilities	146	226	146	226
Current liabilities	244	255	244	255
	390	**481**	**390**	**481**

Tenant allowances represent amounts received from landlords for improvements made by the tenant to leased properties.

All Donor Funds for the African Tax Administration Forum (ATAF), as per the bilateral agreements are deposited into the South African Reserve Bank - Reconstruction and Development Program (RDP) Account, managed by National Treasury.

Unspent donor funding represents outstanding claims against Donor Funds and membership fees on behalf of ATAF.

14. Provisions

Reconciliation of provisions - Economic entity - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in estimate	Total
Surrender of surplus funds	-	793 934	-	-	-	793 934
Performance bonuses	339 409	375 280	(335 060)	(4 125)	-	375 504
Leave pay	78 115	-	-	-	1 287	79 402
Other sundry provisions	3 186	9 419	(7 284)	(2 048)	-	3 273
	420 710	**1 178 633**	**(342 344)**	**(6 173)**	**1 287**	**1 252 113**

Reconciliation of provisions - Economic entity - 2011

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Total
Performance bonuses	270 000	339 409	(244 295)	(25 705)	339 409
Leave pay	72 705	10 167	(4 156)	(601)	78 115
Other sundry provisions	3 400	6 771	(5 913)	(1 072)	3 186
	346 105	**356 347**	**(254 364)**	**(27 378)**	**420 710**

14. Provisions (continued)

Reconciliation of provisions - Controlling entity - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in estimate	Total
Surrender of surplus funds	-	793 934	-	-	-	793 934
Performance bonuses	338 000	374 000	(333 875)	(4 125)	-	374 000
Leave pay	78 115	-	-	-	1 287	79 402
Other sundry provisions	3 186	9 419	(7 284)	(2 048)	-	3 273
	419 301	**1 177 353**	**(341 159)**	**(6 173)**	**1 287**	**1 250 609**

Reconciliation of provisions - Controlling entity - 2011

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Total
Performance bonuses	270 000	338 000	(244 295)	(25 705)	338 000
Leave pay	72 705	10 167	(4 156)	(601)	78 115
Other sundry provisions	3 400	6 771	(5 913)	(1 072)	3 186
	346 105	**354 938**	**(254 364)**	**(27 378)**	**419 301**

Surrender of Surplus

The provision for the surrender of surplus funds relates to the possibility that SARS may be requested by National Treasury, under section 53(3) of the Public Finance Management Act 1999, to surrender a portion of surplus funds. The amount provided represents the surplus funds in excess of the recognised liabilities and certain projects that have been contracted for. The extent to which an outflow of funds will be required is dependent on National Treasury's consideration of pertinent facts, including SARS's future funding needs.

Performance bonuses

Performance bonuses represent the obligation for annual performance bonuses payable to employees in terms of performance agreements. The uncertainty with performance bonuses resides in the final quantum.

Leave pay

Leave pay represents the entitlements of amounts due to personnel for leave accumulated prior to 1999. The uncertainty with leave pay resides with timing and final quantum.

Other sundry provisions

Other sundry provisions represent the amounts approved in principle for back pay due to employees. The uncertainty in this provision resides with timing and final quantum.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
15. Asset revaluation reserve				
Opening balance	70 234	29 404	70 234	29 404
Current year revaluation	9 175	41 035	9 175	41 035
Depreciation based on the revalued portion of assets	(2 267)	(205)	(2 267)	(205)
	77 142	**70 234**	**77 142**	**70 234**
16. Capital reserve on establishment				
Surplus of assets over liabilities transferred from Government on 1 October 1997	32 364	32 364	32 364	32 364
Reversal of capital reserve to accumulated surplus	(32 364)	-	(32 364)	-
	-	**32 364**	**-**	**32 364**
17. Revenue				
The amount included in revenue arising from exchanges of goods or services are as follows:				
Rendering of services	12 075	11 621	-	-
The amount included in revenue arising from non-exchange transactions is as follows:				
Transfer revenue				
Transfers from government entities	8 653 573	8 138 108	8 653 573	8 138 108
18. Other income				
Commission received	231 108	215 604	231 108	215 494
Sundry receipts	12 753	11 467	12 753	11 467
Profit from foreign exchange rate differences	956	182	956	182
SDL training grant	21 944	-	21 944	-
	266 761	**227 253**	**266 761**	**227 143**
19. Impairment of assets				
Impairments				
Property, plant and equipment	7 768	6 817	7 768	6 817
Loan to controlled entity	-	-	25 822	-
	7 768	**6 817**	**33 590**	**6 817**
Reversal of impairments				
Property, plant and equipment	(366)	(122)	(366)	(122)
Loan to controlled entity	-	-	-	(79 737)
	(366)	**(122)**	**(366)**	**(79 859)**
Total impairment losses recognised/ (reversed)	**7 402**	**6 695**	**33 224**	**(73 042)**

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

19. Impairment of assets (continued)

Assets impaired represent items that are either obsolete or not physically verifiable. Events and circumstances which have led to assets being scrapped are similar for all asset categories.

Reversal of impairments in respect of property, plant and equipment represents assets that were not physically verifiable in the prior year, which were subsequently physically verified in the current year.

The loan to Interfront was measured at fair value of the expected future cash flows from the loan. This resulted in an impairment in the current financial year (reversal of impairment in 2011).

20. Finance costs

Finance lease and interest payments	21 389	21 088	21 366	21 066

21. Taxation

Major components of the tax income				
Deferred				
Originating and reversing temporary differences	(222)	(497)	-	-

Reconciliation of the tax expense				
Reconciliation between applicable tax rate and average effective tax rate				
Applicable tax rate	28.00%	28.00%	- %	- %
Surplus/(Deficit) before tax	(387 230)	961 563	-	-
Surplus attributable to SARS (exempt from tax)	347 184	(1 063 153)	-	-
Accounting Profit subject to tax	**(40 046)**	**(101 590)**	-	-
Tax at 28%	(11 213)	(28 445)	-	-
Deferred tax prior year adjustment	(317)	(202)	-	-
Deferred tax not raised	-	1 407	-	-
Permanent difference	10 537	26 743		
Non-deductible expenses	771	-	-	-
	(222)	**(497)**	**-**	**-**

Current taxation for controlled entities comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates substantively enacted at the balance sheet date.

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

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
22. Cash generated from operations				
(Deficit) Surplus	(387 008)	961 316	(347 184)	1 063 153
Adjustments for:				
Depreciation and amortisation	454 852	425 707	451 467	423 090
(Loss) / Gain on sale of assets and liabilities	1 153	(518)	1 153	(518)
Finance costs	21 389	21 088	21 366	21 066
Impairment loss (reversal)	7 402	6 695	33 224	(73 042)
Movements in operating lease liabilities	13 424	28 039	13 326	27 801
Movements in leave pay accrual	24 447	178 842	24 447	178 842
Movements in provisions	831 403	74 605	831 308	73 196
Movement in tax receivable and payable	-	(5 135)	-	-
Annual charge for deferred tax	(222)	(497)	-	-
Changes in working capital:				
Trade and other receivables	(24 935)	2 878	(26 136)	3 517
Prepayments	4 201	(31 853)	4 201	(31 853)
Trade and other payables	46 813	(107 357)	51 696	(110 922)
VAT	(4 495)	1 299	-	-
Deferred income	(91)	(990)	(91)	(676)
	988 333	**1 554 119**	**1 058 777**	**1 573 654**

23. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below.

The fair value measurements used have been categorised into three levels. They are:
Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Economic entity - 2012				
	Fair Value Category	Loans and receivables	Fair value through surplus or deficit - designated	Total
Trade and other receivables	Not applicable	72 826	-	72 826
Cash and cash equivalents	Level 1	-	2 473 848	2 473 848
		72 826	**2 473 848**	**2 546 674**

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

23. Financial assets by category (continued)

Economic entity - 2011

	Fair Value Category	Loans and receivables	Fair value through surplus or deficit - designated	Total
Trade and other receivables	Not applicable	47 891	-	47 891
Cash and cash equivalents	Level 1	-	2 162 518	2 162 518
		47 891	**2 162 518**	**2 210 409**

Controlling entity - 2012

	Fair Value Category	Loans and receivables	Fair value through surplus or deficit - held for trading	Total
Loan to controlled entity	Not applicable	75 218	-	75 218
Trade and other receivables	Not applicable	70 562	-	70 562
Cash and cash equivalents	Level 1	-	2 470 377	2 470 377
		145 780	**2 470 377**	**2 616 157**

Controlling entity - 2011

	Fair Value Category	Loans and receivables	Fair value through surplus or deficit - designated	Total
Loan to economic entity	Not applicable	81 554	-	81 554
Trade and other receivables	Not applicable	44 426	-	44 426
Cash and cash equivalents	Level 1	-	2 160 625	2 160 625
		125 980	**2 160 625**	**2 286 605**

24. Employee benefit obligations

Defined contribution retirement fund

Entitlement to retirement benefits is governed by the rules of the Pension Fund. The economic entity has no legal or constructive obligation to pay for future benefits, this responsibility vests with the Pension Fund.

The total contribution to such schemes	321 522	289 891	319 460	288 196

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
25. Prepayments				
Prepaid expenses	44 146	49 866	44 146	49 866
Employee costs in advance	17 276	15 757	17 276	15 757
	61 422	**65 623**	**61 422**	**65 623**

26. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below.

The fair value measurements used have been categorised into three levels. They are:
Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Economic entity - 2012			
	Fair Value Category	**Financial liabilities at amortised cost**	**Total**
Finance lease obligation	Not applicable	152 168	152 168
Trade and other payables	Not applicable	635 378	635 378
Leave pay accrual	Not applicable	203 289	203 289
		990 835	**990 835**

Economic entity - 2011			
	Fair Value Category	**Financial liabilities at amortised cost**	**Total**
Finance lease obligation	Not applicable	159 512	159 512
Trade and other payables	Not applicable	588 565	588 565
Leave pay accrual	Not applicable	178 842	178 842
		926 919	**926 919**

Controlling entity - 2012			
	Fair Value Category	**Financial liabilities at amortised cost**	**Total**
Finance lease obligation	Not applicable	152 046	152 046
Trade and other payables	Not applicable	634 316	634 316
Leave pay accrual	Not applicable	203 289	203 289
		989 651	**989 651**

Controlling entity - 2011			
	Fair Value Category	**Financial liabilities at amortised cost**	**Total**
Finance lease obligation	Not applicable	159 312	159 312
Trade and other payables	Not applicable	582 620	582 620
Leave pay accrual	Not applicable	178 842	178 842
		920 774	**920 774**

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000
27. Auditors' remuneration				
Current year fees	26 232	22 601	25 577	22 168
Prior year fees	16 422	15 623	16 422	15 597
	42 654	**38 224**	**41 999**	**37 765**
28. Operating lease				
Building rentals	449 767	415 430	448 300	415 430

The lease periods range from 1 year to 15 years and the escalation rates vary between 4% and 12% per annum.

	Economic entity 2012 R '000	Economic entity 2011 R '000	Controlling entity 2012 R '000	Controlling entity 2011 R '000
29. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
Intangible assets	92 461	33 012	92 461	33 012
Property, plant and equipment	31 736	22 789	31 736	22 789
	124 197	**55 801**	**124 197**	**55 801**
Authorised but not yet contracted for				
Intangible assets	2 186	1 734	2 186	1 734
Property, plant and equipment	15 337	-	15 337	-
	17 523	**1 734**	**17 523**	**1 734**
Operating leases - as lessee (expense)				
Minimum lease payments due				
Within one year	364 677	350 112	363 190	348 742
In second to fifth year inclusive	1 236 690	1 144 245	1 233 639	1 139 707
Later than five years	639 080	724 092	639 080	724 092
	2 240 447	**2 218 449**	**2 235 909**	**2 212 541**
30. Contingencies				
Contingent liabilities				
Accumulated leave prior to 31 December 1998	-	21 151	-	21 151

The contingent amount for accumulated leave pertains to the period up to 31 December 1998. Up to this date 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 death in service.

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provisions for such accumulated leave has been made and disclosed as part of note 14.

	Controlling entity	
	2012	2011
	R '000	R '000

31. Related parties

Relationships

Interfront	Refer to note 8
Close family member of key management	Ms. BJ Hore

SARS is a Schedule 3A Public Entity in terms of the PFMA. Related parties include other state owned entities, government departments and all other entities within the spheres of Government.

The Government provided SARS with a grant to cover its operating expenditure and to fund specific projects.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. No provision for doubtful debt relating to outstanding balances has been made and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties. In terms of IPSAS 20 - Related Party Disclosure, SARS is not required to disclose any of the above transactions.

Related party balances	2012 R '000	2011 R '000
Loan account-owing by related party		
Interfront	75 218	81 554
Amounts included in Trade Receivables regarding related parties		
Department of Home Affairs (DHA)	14 581	5 920

Related party transactions	2012 R '000	2011 R '000
Rendering of services to related party		
Department of Home Affairs (DHA)	13 676	54 373

Following the 2010 roll out, on behalf of DHA, of the Movement Control System (Phase 1) at selected border posts, SARS is now involved in the rollout of the solution to the remaining border posts (Phase 2). This enhanced solution has automated some of the border processes and improved overall border security. This solution is supporting SARS towards the transition to an integrated border management model, developed together with DHA and other government departments.

Compensation to close family member of key management	2012 R '000	2011 R '000
Ms. BJ Hore (GE: Enterprise Business Enablement)	2 155	2 037

32. Executive members remuneration 2012

Title	Name	Salary	Bonus	Allowances including Leave Payments	Contributions Medical & Pension	2012 Total	2011 Total
Commissioner for SARS	Mr. GNV Magashula	2 791	860	411	24	4 086	3 830
Deputy Commissioner	Mr. V Pillay	1 855	648	241	24	2 768	2 758
Chief Officer: Operations	Mr. BJS Hore	2 612	857	307	24	3 800	3 548
Chief Officer: Legal & Policy	Mr. JJ Louw	1 682	652	402	226	2 962	2 841
Chief Officer: Customs & Border Management	Mr. HGN Ravele	1 780	462	278	24	2 544	2 275
Chief Officer: Finance	Ms. GMB Coetzer	2 238	653	243	24	3 158	3 078
Chief Officer: Human Resources	Ms. EM Pule	1 669	506	330	224	2 729	2 337
Group Executive: Large Business Centre (11 months)	Ms. S Manik	1 673	485	141	22	2 321	-
Special Advisor: Commissioner (1 month)	Mr. RM Head	233	-	19	2	254	-
Group Executive: Segmentation & Research (2011: Acting)	Mr. A Fisher	-	-	-	-	-	1 758
Group Executive: Large Business Centre (2011: 1 month)	Mr. JA Rock	-	-	-	-	-	270
Group Executive: Taxpayer Services (2011: 1 month)	Mr. NO Mabetwa	-	-	-	-	-	212
Group Executive: Reputation Management (2011: 1 month)	Mr. LAD Wort	-	-	-	-	-	188
Group Executive: Institutional Enablement and Integrity (2011: 1 month)	Ms. DC Mvelazi	-	-	-	-	-	163
		16 533	**5 123**	**2 372**	**594**	**24 622**	**23 258**

33. Change in estimate

Leave pay provision

The leave pay provision for leave prior to 1 January 1999 in the 2011 financial year was calculated based on the estimated percentages of probability applied to the various age groups. In the previous period, management revised the estimate of percentages of probability.

	Prior estimate
25 years to 35 years	51.98%
36 years to 45 years	66.34%
46 years to 54 years	78.58%
55 years and older	99.47%

The effect of this revision has increased the provision for the 2011 financial year by R 3 867 631.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

33. Change in estimate (continued)

In the 2012 financial year more reliable information became available and management was able to follow a more robust calculation approach to determine the quantum for the provision.

The provision was based on calculation methods used in actuarial valuations. The use of the new approach eliminated the need to account for the contingent portion of the leave days accumulated prior to 1 January 1999. Refer to note 30.

The change in calculation approach led to a time value of money adjustment to the provision of R1 286 241 in the 2012 financial year. Refer to note 14.

34. Prior period adjustments

The correction of the error(s) results in adjustments as follows:

Statement of Financial Position				
Property plant and equipment	4 142	-	4 142	-
Trade and other receivables	905	-	905	-
Trade and other payables	(753)	-	(753)	-
VAT Control Account	(5 330)	-	-	-
Intangibles	1 286	-	(4 044)	-
Effect of reclassification	**-**		**-**	
Trade and other payables	178 842	-	178 842	-
Leave pay accruals	(178 842)	-	(178 842)	-
Accumulated surplus	250	-	250	-
Statement of Financial Performance				
Depreciation expense	(64)	-	(64)	-
Professional and special services	753	-	753	-
Administrative expenses	(939)	-	(939)	-

In 2011, Property, Plant and Equipment was understated due to errors in the classification of Asset under Construction (R 4 043 854) and Leasehold Improvements incorrectly expensed (R907 395). A portion was overstated due to assets earmarked for the Department of Home Affairs capitalised onto the Controlling Entity's Fixed Asset Register (R809 411).

Trade and other receivables (Government Debtors) was understated due to the Department of Home Affairs not being invoiced for the assets purchased on their behalf in 2011 (R809 411). Refer to Property Plant and Equipment above.

Trade and other payables was understated in 2011 due to the under accrual of software maintenance specific to one vendor (R809 411).

The Vat Control Account was understated in 2011 in the Economic Entity due to the incorrect elimination on consolidation of VAT against Software under Development (R5 329 811).

Intangible assets (Software under Development) were overstated in 2011 in the Controlling entity due to errors in classification of Assets under Construction (R4 043 854) and understated in the Economic Entity due to the correction of the VAT elimination on consolidation (R5 329 811) as described above (net effect R1 285 957).

34. Prior period adjustments (continued)

During 2011 all leave types were classified as Trade and Other Payables. Leave that can be carried over from year to year is now classified as non-current leave pay accruals. The net effect of the reclassification is zero.

35. Risk management

Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Liquidity risk

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. SARS manages its liquidity risk to ensure it is able to meet estimated expenditure requirements. This is achieved through prudent liquidity risk management which includes maintaining sufficient cash and cash equivalents.

SARS's chief source of income is an annual grant from The National Treasury for funding of SARS's operational and capital requirements. This grant is allocated in accordance with the provisions governing the Medium Term Expenditure Framework (MTEF). SARS follows an extensive planning and governance process to determine its operational and capital requirements.

Housing guarantees are recovered from the employee's salary and/or pension when the guarantees are claimed. The full liquidity risk at 31 March 2012 was R 1 970 095.

SARS recognised an accrued leave liability for leave prior to 1 January 1999 at the time value of money estimated to be R79 401 733. SARS is however exposed to a nominal liquidity risk at year end of R96 731 137.

This is considered to be adequate mitigation of liquidity risk.

Economic entity (R'000)				
At 31 March 2012	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Interest bearing borrowings	41 087	149 158	24 295	**214 540**
Trade and other payables	635 378	-	-	**635 378**
Leave pay accrual	-	-	203 289	**203 289**
At 31 March 2011	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Interest bearing borrowings	39 497	139 705	55 100	**234 302**
Trade and other payables	588 565	-	-	**588 565**
Leave pay accrual	-	-	178 842	**178 842**

35. Risk management (continued)

Controlling entity (R'000)				
At 31 March 2012	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Interest bearing borrowings	40 986	149 124	24 295	**214 405**
Trade and other payables	634 316	-	-	**634 316**
Leave pay accrual	-	-	203 289	**203 289**
At 31 March 2011	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Interest bearing borrowings	39 397	139 570	55 100	**234 067**
Trade and other payables	582 620	-	-	**582 620**
Leave pay accrual	-	-	178 842	**178 842**

Interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis.

SARS's exposure to interest rate risk is limited. Interest rates are implicit to the finance leases which are not variable over the term of the lease contracts.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. SARS is exposed to credit-related losses in the event of non- performance by counter-parties to financial instruments.

SARS only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party;

Staff debts are recovered in terms of the applicable policy and procedures directly from the employee's salary and/or pension;

Management have evaluated the probability of non-repayment of the loan by the subsidiary and have determined that in the case of default the loan could be restructured or converted into equity.

SARS does not regard there to be any concentration of credit risk.

Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. SARS's operations utilise various foreign currencies and consequently are exposed to exchange rate fluctuations that have an impact on cash flows. Foreign exchange risks are managed through SARS's policy on foreign exchange transactions.

The economic entity reviews its foreign currency exposure, including commitments on an ongoing basis.

		Economic entity		Controlling entity	
		2012	2011	2012	2011
		R '000	R '000	R '000	R '000

36. Reconciliation between budget and Statement of Financial Performance

The budget is prepared and approved on an accrual basis and covers the fiscal period from 1 April 2011 to 31 March 2012. The budget includes SARS and Interfront, a fully-owned subsidiary of SARS.

Surplus (Deficit) per the statement of financial performance		**(397 452)**	**961 316**	**(357 628)**	**1 063 153**
Adjusted for:					
Additional Revenue		**(107 513)**	**(42 346)**	**(101 919)**	**(30 341)**
Other income		(107 513)	(42 346)	(101 919)	(30 341)
Non-cash items		**(45 534)**	**9 938**	**(23 195)**	**(72 654)**
Impairment (reversals) of assets	19	7 402	6 695	33 224	(73 042)
Leave pay provision	14	1 287	5 410	1 287	5 410
Straight-lining (operating leases)		13 424	28 039	13 326	27 801
Equipment finance lease reduction	11	(14 714)	(15 755)	(14 714)	(15 755)
Depreciation and amortisation		(52 933)	(14 451)	(56 318)	(17 068)
Expenditure (lower)/exceeding budget		**716 237**	**(627 380)**	**648 480**	**(658 630)**
Professional services		(166 451)	(221 590)	(162 681)	(225 665)
Admin expenses		(142 224)	(265 681)	(163 689)	(269 686)
Taxation	21	(222)	(497)	-	-
Employee costs		(170 273)	(76 014)	(228 036)	(99 659)
Provision: Surrender of surplus funds	14	793 934	-	793 934	-
Surrender of surplus		408 000	-	408 000	
Other		(6 527)	(63 598)	952	(63 620)
Surplus per final budget as per the 2011 Estimates of National Expenditure		**165 738**	**301 528**	**165 738**	**301 528**

37. Donations in kind

Particulars of each donation or bequest accepted by SARS must be disclosed in accordance with section 24 (2) (b) of the South African Revenue Service Act (Act No. 34 of 1997).

1) BDA - Belgium Development Agency	791	600	791	600

Travel and accommodation for attending the APEC Port Logistics Training Course held in Antwerp/Flanders.

2) SRC - Seychelles Revenue Commission	152	-	152	-

Travel and accommodation to provide technical assistance to the Seychelles Revenue Commission's Audit Capacity.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

3) ATAF - African Tax Administrative Forum	102	-	102	-

Travel and accommodation for attending meetings and technical events on Organisation and Management of Tax Administration, Revenue Administration and Exchange of Information.

4) OPCW - Organisation for the Prohibition of Chemical Weapons	87	35	87	35

Travel and accommodation to attend the sub-regional training courses for Customs Officials from East and Southern Africa on the technical aspects of the Transfers Regime of the Chemical Weapons Convention and Weapons of Mass Destruction (WMD) Commodity Identification.

5) IRBM - Internal Revenue Board of Malaysia	76	-	76	-

Travel and accommodation for attendance of the Advance Transfer Pricing Seminar and the Revenue Management Training Course.

6) SADC - Southern African Development Community	74	121	74	121

Travel and accommodation to attend the SADC Transit Task Team meeting.

7) UN - United Nations	70	30	70	30

Travel and accommodation for attendance of the meeting of the UN Committee of Experts on International Cooperation in Tax Matters, regional seminar on International Merchandise Trade Statistics and expert group meeting of the Compilation of the Compendium of Intra-African and Related Trade Statistics.

8) MRA - Mauritius Revenue Authority	63	202	63	202

Travel and accommodation to facilitate the quarterly assessment of the narcotic detector dog and handler training as part of the international training assistance given to the Mauritius Revenue Authority. (2011 - Attendance of the certification ceremony).

9) MTA - Malaysia Tax Academy	63	21	63	21

Accommodation and subsistence to attend the Taxation of International Transaction Workshop (TIOT).

10) OECD - Organisation for Economic Cooperation and Development	45	-	45	-

Travel and accommodation to present a seminar of ITSAX and attendance of 2GE.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

11) AusAID - Australian Agency for International Development	35	-	35	-

Participation in a technical assistance building programme for the ZIMRA Large Tax Office.

12) IMF - International Monetary Fund and ATAF	34	-	34	-

Travel and accommodation to participate in the IMF mission on Taxpayer Services and the ATAF Taxpayer Services technical event.

13) SIDA - Swedish International Development Agency and National Board of Trade	33	12	33	12

Travel and accommodation to attend the Rules of Origin Training Programme.

14) Angola	30	-	30	-

Travel and accommodation to attend the seminar on the Organisational Structure and Procedures for a Customs Training Unit or Customs Academy.

15) IMF - International Monetary Fund	26	68	26	68

Travel and accommodation to follow up on the IMF mission on Taxpayer Services.

16) WB- World Bank	23	-	23	-

Travel and accommodation to participate in a panel on Tax and Development arranged by the World Bank and the Norwegian Agency for Development Cooperation (NORAD).

17) ICTD - International Centre for Tax and Development	22	-	22	-

Travel and accommodation to attend the ICTD conference on Taxation, Governance and Development.

18) RRA - Rwanda Revenue Authority	19	30	19	30

Travel and accommodation to attend the first Tripartite Heads of Customs meeting held from 17 to 18 November 2011.

19) WHO - World Health Organisation	15	-	15	-

Travel and accommodation to attend the WHO Regional Training Workshop on Tobacco Taxes.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

20) WCO - World Customs Organisation	15	71	15	71

Travel and accommodation to attend the ICCWC Workshop on "Establishing a Network of Controlled Delivery Units for Forest and Wildlife Law Enforcement".

21) IAEA - International Atomic Energy Agency	14	246	14	246

Travel and accommodation to attend the Regional Training Course on Security of Radioactive Sources.

22) SACU - South African Customs Union	14	21	14	21

Travel and accommodation to attend the SACU Enforcement workshop.

23) EU - European Union	13	20	13	20

Travel and accommodation to attend the Workshop on Mining Taxation: Transforming Mineral Resource Wealth into Sustainable Development.

24) Italian Customs & Italian Revenue Agency	13	6	13	6

Travel and accommodation to attend the seminar on the Enhanced Relationship in the Banking Sector.

25) Oxford University Centre for Business Tax	10	-	10	-

Travel and accommodation to attend the General Anti Avoidance Rules seminar.

26) AU - African Union	8	13	8	13

Travelling to attend the AU Customs Technical Working Group Workshops.

27) ZIMRA - Zimbabwe Revenue Authority	7	-	7	-

Travel and accommodation to attend the WCO regional workshop on the Authorised Economic Operator (AEO).

28) Centre for Training Projects Development	5	-	5	-

Travel and accommodation to attend the Forensic Investigation, IT Cyber and Fraud Prevention Conference.

29) InWent – Internationale Weitebildung und Entwicklung	-	766	-	766

Accommodation in Berlin, Germany to attend the InWent International Leadership Training Programme: Global Trade - New challenges for Customs Policy and Customs Administrations.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

30) US DOJ - The United States Department of Justice	-	189	-	189

Travel and accommodation to attend the WCO Accreditation workshop for Technical Trainers on Intellectual Properties Right (IPR) in Brussels, Belgium and training in Lusaka, Zambia.

31) SADC - Southern African Development Community	-	121	-	121

Attendance of the SADC sub-committee meetings, other working group meetings and training workshops.

32) The WCO Japan Customs Cooperation Fund	-	118	-	118

Travel and accommodation for attendance of the CWO workshops and seminars.

33) AKMAL - Royal Malaysian Customs Academy	-	96	-	96

Travel and accommodation in Malaysia for Customs Training Programmes.

34) USA - United States of America	-	68	-	68

Travel and accommodation to attend the Trans-Pacific Symposium on Inter-Agency Cooperation in Combating Transnational Illicit Networks, held in Christchurch, New Zealand and the Global Transshipment Seminar in Dubai, UAE.

35) JICA - Japan International Cooperation Agency and the Malaysian Tax Academy	-	60	-	60

Travel and accommodation for attending the Third Country Training Programme for African Countries: Compliance and Enforcement Activities held in Bander Baru Bangi, Malaysia.

36) HMRC - Her Majesty's Revenue and Customs	-	45	-	45

Travel and accommodation for attendance of meetings and discussions held with the Serious Fraud Office (SFO) and attendance of the Race Staff Network Conference held in London, United Kingdom.

37) Swedish Government	-	40	-	40

Travel and accommodation to attend the WCO Project GAPIN regional workshop in Mombasa, Kenya.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

38) ADB - African Development Bank	-	30	-	30

Travel and accommodation for the attendance of technical workshops and the second ATAF council in Tunis, Tunisia.

39) US State Department	-	30	-	30

Travel and accommodation for attendance of the WCO Project Global Shield Seminar in Brussels, Belgium.

40) CABRI - Collaborative Africa Budget Reform Initiative	-	26	-	26

Travel and accommodation for ATAF attendance of the Stakeholder Conference on the Good Financial Governance Project in Tunis, Tunisia.

41) NGB - National Gambling Board	-	25	-	25

Travel and accommodation for attendance of the Annual 2GE Conference Exhibition in Las Vegas, USA.

42) SADC/EU Project - Southern African Development Community / European Union	-	25	-	25

Travel and accommodation for attendance of the SADC Tax Subcommittee meeting and High Level Seminar on Regional Tax Coordination in Livingstone, Zambia.

43) US Embassy	-	22	-	22

Travel and accommodation to attend the 2010 Maritime Safety and Security towards Economic Prosperity Conference in Stuttgart, Germany.

44) BURS - Botswana Unified Revenue Service	-	10	-	10

Travel and accommodation to give technical assistance to BURS regarding the Electronic Funds Transfer (EFT) System, Kopano, in Gaborone, Botswana.

45) UNSD - United Nations Statistic Division	-	10	-	10

Travel and subsistence in Lusaka, Zambia to attend the Updated and New Recommendations for International Merchandise Trade Statistics workshop.

46) NORAD - Norwegian Agency for Development Cooperation	-	9	-	9

Travel and accommodation to attend the "Towards Fiscal Self-Reliance: Capacity Building for Domestic Revenue Enhancement in Mozambique, Tanzania and Zambia" workshop held in Maputo, Mozambique.

	Economic entity		Controlling entity	
	2012	2011	2012	2011
	R '000	R '000	R '000	R '000

37. Donations in kind (continued)

47) The Netherlands	-	6	-	6

Accommodation in the Netherlands to attend the programme on Governance and Security.

48) SRA - Swaziland Revenue Authority	-	5	-	5

Accommodation in Mbabane, Swaziland to attend the official launch of the Swaziland Revenue Authority (SRA).

The above amounts were paid directly to the suppliers of the services. No monies were directly received by SARS.

38. Fraudulent activities

The fraudulent activity reported in 2010 of staff members colluding with outside suppliers to the value of R11 501 million has been transferred to the High Court with an appearance date scheduled for the latter part of 2012.

Management is committed to the process and continues to investigate and report all fraudulent activities identified. In the interest of improved disclosure alleged fraudulent activities to the value of R542 765 are under investigation.