

SARS
ANNUAL REPORT
& FINANCIAL STATEMENTS
2001 / 2002

CONTENTS

SARS Mandate, Vision, Mission
Strategic Goals and Values
Commissioner's Review
Key Achievements
Acting Chairperson's Report
SARS Executive Committee
SARS Environment
SARS Transformation
Overview of the SARS Main Business Lines and Achievements
SARS Support Services
The Year Ahead
Financial Statements - Administered Revenue
Report of the Auditor-General
Administered Revenue
Financial Statements - Own Accounts
Report of the Auditor-General
Own Accounts
Contact Details

MANDATE, VISION & MISSION

Mandate

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

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

Vision

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

Mission

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

STRATEGIC GOALS AND VALUES

Strategic Goals

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

- We will optimise revenue collection
- We will ensure improved tax compliance and Customs enforcement
- We will maintain and upgrade key support infrastructure
- We will ensure efficient processes
- We will improve our taxpayer/trader service

Our strategic objectives for 2001/2002:

- Optimising revenue yield
- Ensuring consistency, uniformity and accuracy in the application of laws
- Transforming business and technology
- Responsible enforcement
- Improved taxpayer service, communication and education
- Transforming our culture and people
- Promoting good governance
- Building relationships and partners

Our strategy for achieving these objectives is underpinned by two key concepts:

- To do different things and
- Doing things differently, and seeks to deliver on the twin objectives of organisational transformation and operational targets

Values

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

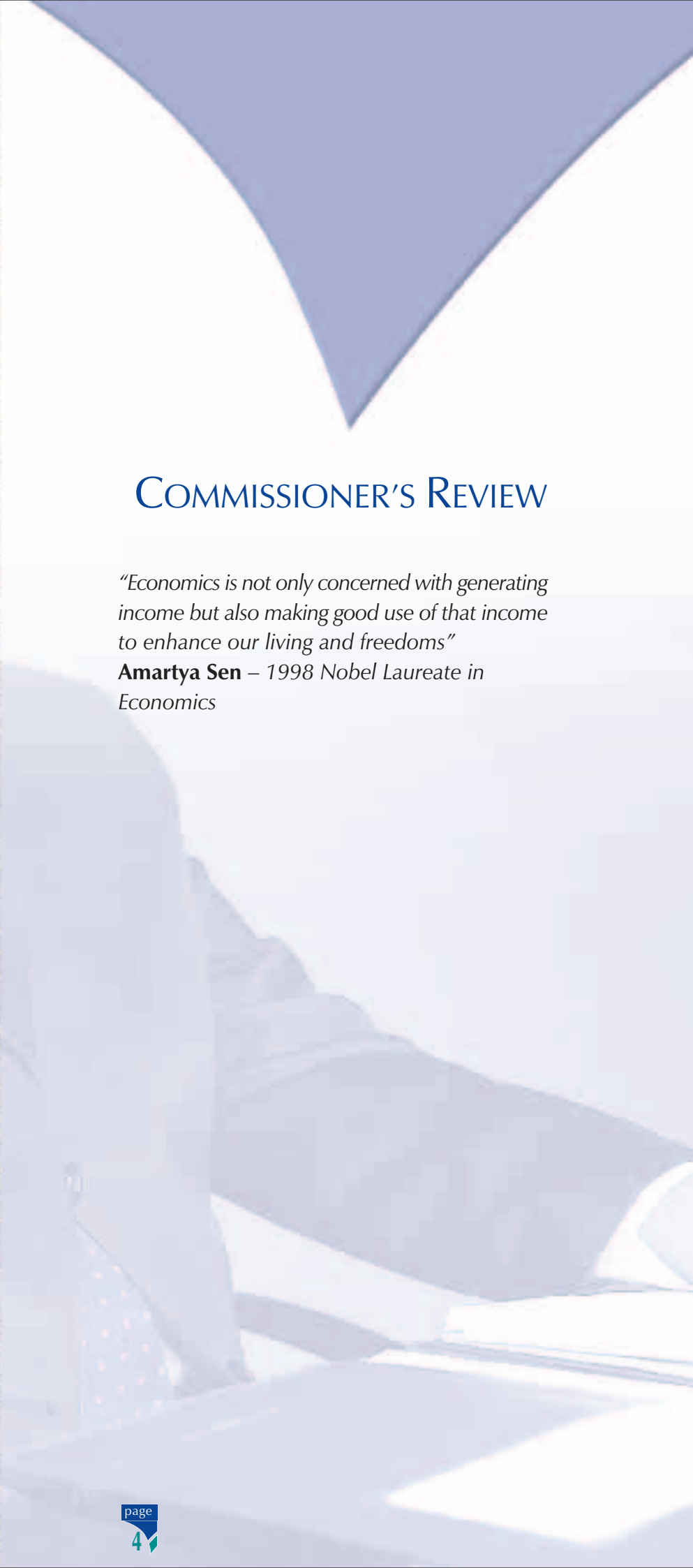
- Mutual respect and trust
- Equity and fairness
- Integrity and honesty
- Transparency and openness
- Courtesy and commitment



COMMISSIONER'S REVIEW

"Economics is not only concerned with generating income but also making good use of that income to enhance our living and freedoms"

Amartya Sen – 1998 Nobel Laureate in Economics



The past year marks an important milestone in the progress of transforming SARS, that firmly entrenched our commitment to service excellence and enhancing our country's financial capacity to improve the quality of life for all its citizens. The foundations of this transformation, Siyakha, embrace our contribution towards developmental governance and citizenship – "a culture in which both government and citizens have a mutual responsibility to sustain democracy and foster development".

The key challenges during the past year included initiating innovative ways of reforming and modernising the tax system, introducing the Capital Gains Tax, investment in human resource reorganisation and development, and building both regional and local partnerships with various stakeholders and taxpayer groups.

The core mandate for SARS in the past year was to meet its revenue target set by the Minister of Finance, against the background of a global decline in economic growth. We are proud to report that we were able to raise the sum of R249,2 billion against an original target of R234 billion and a revised target of R249,4 billion. The total surplus on original estimates from 1995/96 to 2001/02 amounts to R39 billion.

To meet and sustain these onerous targets and objectives, SARS had to roll out much-needed transformation changes in the area of business processing and physical infrastructure.

A more focused enforcement strategy underpinned the organisation's approach to revenue collection. This entailed, in the main addressing areas of high risk informed by intelligence gathering activities, an integrated audit approach and the introduction of computerised risk analysis (SARAP) in the major compliance centres. The success of this approach was evidenced by the over-achievement in the areas of corporate audit results as well as enforced collections, supported by the expanded outbound call centre. The expanded emphasis on enforcing compliance culminated in increased and much-publicised prosecution of transgressors. Overall, this translated into an improved compliance environment, both within and external to SARS.

The process re-engineering included the launch of e-filing facilities to taxpayers in the areas of VAT, PAYE and provisional tax returns and payments. This established SARS as the first government department to offer electronic transacting facilities. Other restructuring initiatives incorporate a new system for collecting Unemployment Insurance Fund (UIF) contributions and integrating functions and forms with Pay as You Earn (PAYE) and Skills Development Levy (SDL).

It was also a year that signalled fundamental changes in the area of Customs from the complete re-organisation into teams and new leadership, automation and re-engineering of core processes to the adoption of a risk-based, intelligence-driven approach. This was enhanced by the continuing upgrade of border posts and the introduction of an accredited client scheme that radically changed the interaction of traders with SARS. Externally, Customs was faced with implementing the various trade agreements and standards adopted internationally, per the World Customs Organisation.

In line with the commitment to ensure and foster partnerships with other stakeholder and taxpayer groups, SARS initiated a Partnership for Better Compliance and Service Programme. This programme attempts to increase co-operation with these stakeholder and taxpayer groups to facilitate trade and encourage better compliance within each sector.

These sectors include: the Wine and Spirits Institute, the Tobacco Institute, the clothing industry through Clotrade, the textile industry through Texfed, Labour with South African Clothing and Textile Workers Union, the clearing and forwarding industry through SAAFF, the road freight industry through the Road Freight Association (RFA), Edcon group and the South African Bureau of Standards.

SARS recognises the critical importance of supporting and developing our human capital. Siyakha formed the basis for the transformation which aims to make SARS the employer of choice. The key objectives of the staff component included establishing the skills required by SARS and determining the skills gap, improving employee participation and strengthening the multidisciplinary work-team approach. This was accomplished through an integrated Human Resource Strategy that included developing a new personnel system, improved labour relations that culminated in pioneering agreements with unions, and developing training programmes such as the Accredited Certified Chartered Accountants (ACCA) qualification programme.

A persistent challenge to SARS is to increase compliance levels through both service and enforcement. The key in this regard has been the establishment of dedicated service areas in all branch offices and the creation of new Service Centres in Kwa-Zulu Natal (KZN). This has been coupled with the introduction of performance measures and the establishment of a complaints 'desk' to further assist taxpayers/traders.

The size of the tax gap is a key indicator of the effectiveness of the administration and illustrates the prevailing compliance culture. The current reporting period saw the implementation of an initiative to measure the size and profile of the nature of the tax gap which will inform enforcement action. These outputs would be invaluable in terms of refining the current revenue estimation and modelling process.

We value our partnership with the recognised trade unions. Our major achievement was the agreement reached with the trade unions on the Siyakha restructuring protocol. This agreement facilitated the KZN transformation roll-out and it will remain the overall framework agreement with the trade unions for the continuation of the SARS transformation process.

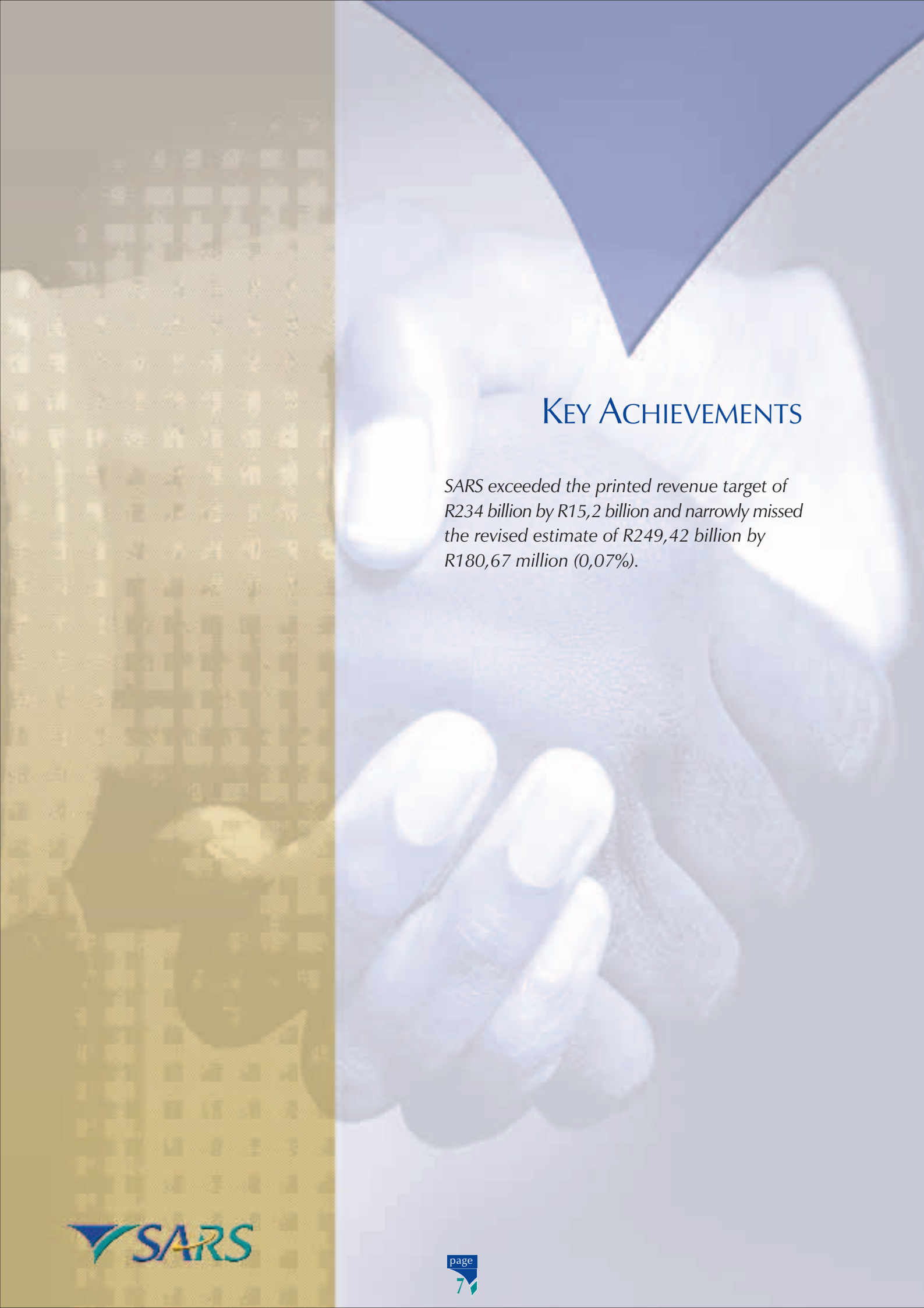
SARS would like to extend its heartfelt thanks to the Minister and Deputy Minister of Finance for their active involvement, encouragement, clear direction and unwavering support.



Commissioner Mr Pravin Gordhan

A handwritten signature in black ink, appearing to read 'Pravin Gordhan'.

PRAVIN GORDHAN
COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE

The background of the page features a large, semi-transparent image of two hands shaking, symbolizing agreement or achievement. The image is split vertically: the left side is a warm, golden-brown color, and the right side is a cool, light blue color. The handshake is positioned centrally, with the hands meeting in the middle.

KEY ACHIEVEMENTS

SARS exceeded the printed revenue target of R234 billion by R15,2 billion and narrowly missed the revised estimate of R249,42 billion by R180,67 million (0,07%).

The surplus is mainly due to:

Revenue

- Increase in the Gross Operating Surplus of companies
- Active application of paragraph 19(3) of the 4th Schedule to the Income Tax Act, re-basing basic amounts of companies to the latest published financial statements
- Higher commodity prices and weakened exchange rate resulting in higher receipts
- Faster processing of returns resulted in improved assessment payments
- Improved collection efforts resulting in higher than estimated interest payments

Compliance

- 62% increase in audit results due to more focused, targeted enforcement activities supported by risk-profiling and intelligence activities
- Introduction of collections outbound call centre
- Establishment of post clearance inspection and anti-smuggling teams nationally
- Border Control Improvement Programme established to execute National Interdepartmental Structure (NIDS) functions

Special Customs Enforcement Actions

- First joint investigation with European Union on round-tripping in the fishing industry executed (Olaf Mission)
- Drug seizures amounted to 1 208,05 kg comprising:

Cannabis	1 178,15 kg
Cocaine	12,5 kg
Ecstasy	17,4 kg

Operational Policy Changes

- Implementation of computerised risk profiling (SARAP)
- Introduction of integrated compliance actions across all tax types, including Customs
- Adoption of a compliance model and toolkit
- Implementation of accredited client scheme within Customs
- Signing of Memoranda of Understanding with Mozambique, Netherlands and Zambia

Legislation

The Taxation Laws Amendment Act 2001 principally provided for the introduction of Capital Gains Tax.

The primary features of the Revenue Laws Amendment Act, 2001 include:

- Introduction of strategic investment incentive
- Amendments subjecting directors of private companies to PAYE
- Adjustments to capital allowances for small manufacturing corporations and airport infrastructure
- Enabling legislation to support duty at source requirements, registration and accreditation of Customs clients and Customs control over goods
- The finalisation of the Unemployment Insurance Contributions Act, 2002

Strategy & Planning

- Initiated tax gap research to measure the tax gap and propose activation strategies to reduce the gap
- Implemented Interim Performance Management System (IPMS)
- Formalised business planning process
- Hosted Southern African Developing Countries (SADC) Regional Customs Workshop

Technology

- Implemented Capital Gains Tax
- Developed system for the collection of Unemployment Insurance Fund (UIF) contributions and integrating functions and forms with Pay-As-You-Earn (PAYE) and Skills Development Levy (SDL)
- INFOSEC – developed security policies for personnel, documents, logical security and systems process security

Finance

- Unqualified opinion on own accounts for the last two successive years since gaining administrative autonomy in 1997
- Further enhancements in internal controls over month-end and reconciliation procedures, cash management and payments, registry and administrative functions, fixed asset maintenance and accounting
- Fundamental Procurement reform to facilitate dynamically changing business needs whilst complying with Government's General Procurement Guidelines
- Finalisation of Generally Recognised Accounting Practice (GRAP) reporting (cash accounting) with a migration plan to the progressive implementation of Generally Accepted Accounting Practice (GAAP) in respect of Administered Revenue
- 2002 Financial Statements for Administered Revenue compiled in terms of GRAP, received an "except for" audit qualification related to the lack of internal controls over the assessment and capturing process. Whilst the audit opinion is similar to that of the prior year, significant improvements have been made in the areas of reconciliations and financial reporting

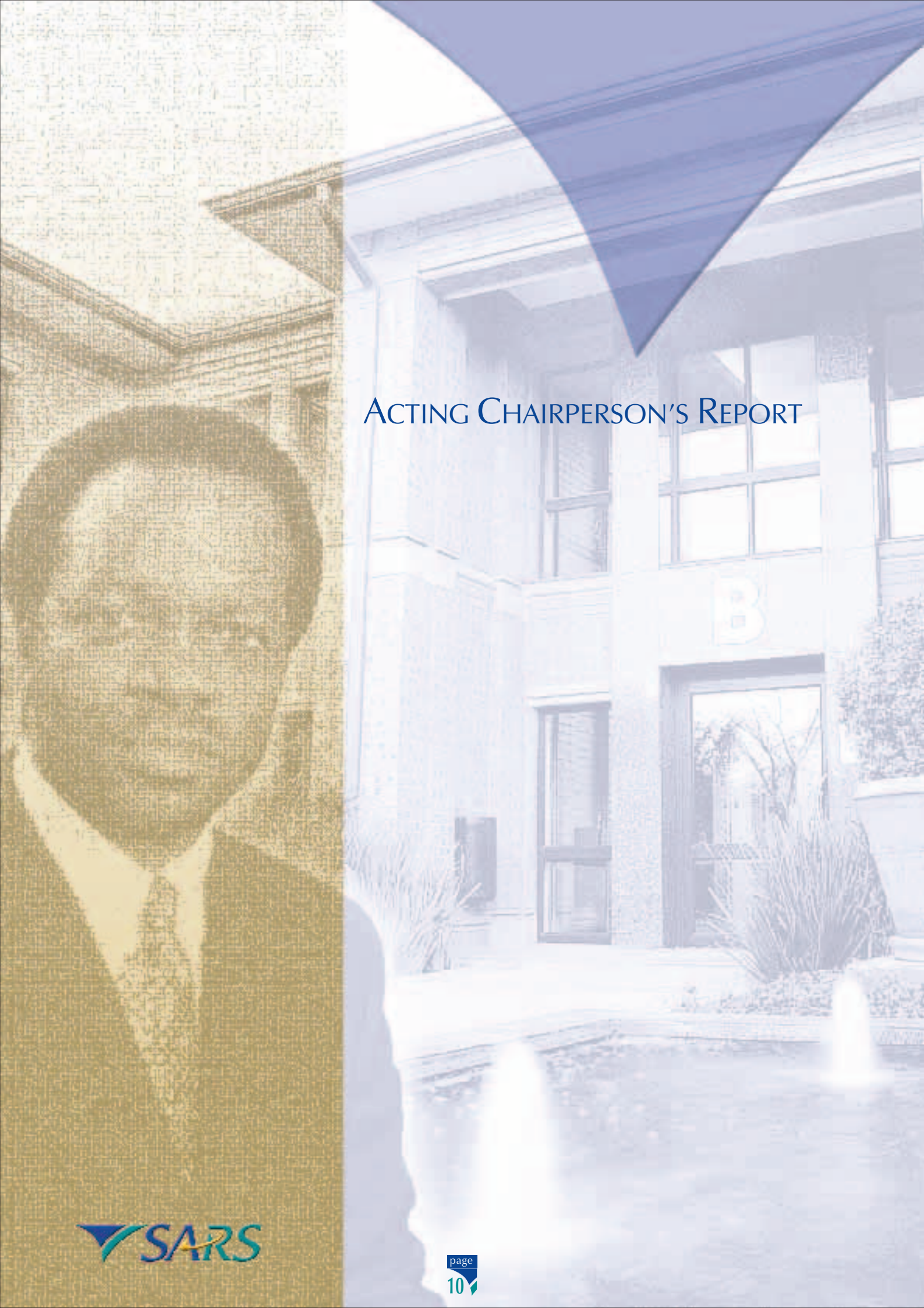
People

Facilitated staff deployments to support transformation roll-out:

- Represented Siyakha People Placement Protocol in agreement with Unions
- Completed KZN people deployment as well as the appointment of Western Cape and Gauteng management teams
- Implemented employee assistance programme
- Verified new job grades for all employees
- Implemented Accredited Certified Chartered Accountants (ACCA) qualification programme

Service Improvement

- Established dedicated service presence in all offices
- Implemented service performance measures and tracking in 90% of Revenue Branch offices
- Rolled out of the Service Centre and Points of Presence in KZN
- Implemented a monitoring unit to resolve complaints received by the Commissioner's and Minister's offices
- Improved service at Customs ports of entry



ACTING CHAIRPERSON'S REPORT

It gives me much pleasure to contribute to this, the SARS Annual Report for 2002 on behalf of the SARS Advisory Board and its two sub-committees. The year under review has once again been one of momentous change and significant achievement for SARS. This is also a very special message from the Advisory Board as it will be the last message from the Board in its current form.

A decision has been taken that the SARS Advisory Board in its existing form would be dissolved and legislation is currently before Parliament to effect this amendment to the SARS Act. In the place of the Board, which was only advisory in nature, a number of specialist committees will be appointed to advise the Commissioner and Minister on specific matters such as human resources, information technology, remuneration, etc. An Audit Committee, previously a sub-committee of the Board, has been retained so as to ensure compliance with the Public Finance Management Act (PFMA).



Acting Chairperson of the Board Mr Sizwe Nxasana

It is thus with great pleasure that I congratulate SARS for the progress that it has made in transforming itself and for the spectacular achievements made, the most noticeable being that of the revenue collection. Since 1995/96 SARS has exceeded its revenue target and has ensured a surplus of R50,9 billion above that which it was required to collect. This spectacular performance was made possible not only by the more focused enforcement strategy that underpinned the organisation's approach to revenue collection, but through the dedication the Executive and the staff members displayed. Many challenges still face the organisation, of which an increased service to the public is the most important. We would like to wish the organisation well in facing these challenges and are confident that they are able to meet these challenges head-on.

Finally, I wish to thank all the Board members for their contribution and role played .

I would accordingly like to take this opportunity on behalf of the Board, to thank the Minister and Deputy Minister of Finance, the Commissioner and the Executive Committee of SARS for the opportunity that it has afforded the board members to influence the direction of such a pivotal organ of state.

A stylized, handwritten signature in black ink, consisting of a large loop and a trailing flourish.

SIZWE NXASANA
DEPUTY CHAIRPERSON
Audit Committee
CEO of Telkom S.A.

SARS EXECUTIVE COMMITTEE

SARS EXECUTIVE COMMITTEE



(from left to right):

Mr Ivan Pillay, (Compliance); Mr Kosie Louw (Law Administration); Mr Edward Mushanganyisi (Internal Audit); Mr Thinus Marx (Processing); Mr Prakash Mangrey (Finance); Mr Pravin Gordhan (Commissioner of SARS); Mr Vuso Shabalala (Customs) Mr Andile Pama (Taxpayer Service); Mr Mfundo Nkuhlu (Strategy and Planning) and Mr Itumeleng Matsheka (Human Resources)

SARS ENVIRONMENT

SARS operates in a highly dynamic, complex and increasingly globalised environment. It is therefore driven by imperatives to effectively position the organisation on a local, regional and international level to successfully implement national priorities and deliver on its mandate.

Overview

Globalisation and regional integration, the Information and Communications Technology (ICT) revolution and the events of 11 September 2001, have dramatically altered the landscape within which SARS operates. In addition, the dualism of the South African economy, the prevalent compliance culture and greater resource requirements for public spending, has made the challenge substantial.

During the financial year, SARS continued with its significant tax and Customs transformation programme (Siyakha - 'We are Building'). A key milestone in this regard was the satisfactory roll-out of the KZN pilot programme, which provided the physical and processing infrastructure for a more effective and efficient SARS. A parallel initiative was the exploration of feasible technology enablement in the areas of electronic document management, workflow technology and customer relationship management (CRM). An outcome of this proof of concept (POC) was the opportunities provided by technology to achieve further efficiencies and advancement towards an electronic administration with a taxpayer/trader focus.

From an operational perspective, SARS continued its favourable trend of exceeding printed estimates when actual revenue collections amounted to R249,2 billion (6,5% greater than target). This achievement resulted in a significant R15 billion tax relief to individual taxpayers, as announced by the Minister of Finance in the 2002 Budget Review.

The Economy

Against the background of a marked slowdown in the global economy, South Africa's economic growth slowed to 2,2% in 2001 and is expected to strengthen moderately (2,3% forecast for 2002), buoyed by international recovery and rising domestic demand.

Government policies continue to be focused on sustainable development and on creating a strong, stable economic base through tariff liberalisation, prudent fiscal policy, investment in infrastructure, education, land reform and lower inflation. Deficit reduction and strong revenue performance have created the fiscal room for Government to respond to the present slowdown.

After eight years of strong productivity gains, restructuring of markets and the growth of trade, the South African economy is fundamentally more competitive in international product markets – setting the stage for export growth, improved income and employment and deeper financial integration.

The Global Economy and Future Prospects

Rising business confidence in South Africa has sustained a healthy rate of growth in investment. This is expected to strengthen over the Medium Term Expenditure Framework (MTEF) period, due to lower taxes, declining labour costs, increased competitiveness and a more stable exchange rate. Export performance is expected to benefit from the real depreciation in the value of the rand, which should cushion the effects of lower world demand. The anticipated recovery in the global economy from the second half of 2002 and a further liberalised world trade environment are likely to provide additional impetus for strong export growth.



Despite higher domestic spending in 2001, merchandise import volumes declined as import prices rose sharply. Imports are expected to accelerate as the domestic economic activity gains momentum, although expenditure switching effects of the depreciation will keep import growth moderate.

The services and income account records, payments and receipts have risen steadily over the past 10 years, due in part to foreign equity purchases of SA companies, which rose sharply in the second quarter of 2001. Overall, factor payments as a proportion of export earnings remain modest. High returns to exports priced in dollars and lower rand-denominated production costs suggest that South African assets remain well priced – which should encourage higher inward Foreign Direct Investment (FDI) and portfolio flows.

Developments in the Domestic Economy

Total real imports of goods and services rose by 0,4% in the first three quarters of 2001 from a year earlier due to weaker domestic economic conditions coupled with the depreciating exchange rate, whereas the same factors led total real exports to rise by 4,7%. This resulted in a cumulative trade surplus of R29,1 billion over the same period.

World merchandise trade grew in volume terms by only 2% in 2001, compared with 12% in 2000. South Africa's real merchandise exports followed the world trend, growing rapidly in 2000 and the first half of 2001, before decelerating in the second half of 2001. Services exports continued to grow strongly by 13,5% in the first three quarters of 2001.

Short-term developments, however, mask an underlying trend in manufactured exports as a proportion of total exports. Over the last five years, the machinery and transport equipment industry raised its share of total manufactured exports substantially, with automotive exports rising strongly.

The steady shift away from primary exports to manufactured exports, coupled with a depreciating exchange rate should impact positively on total exports in the medium to long term, and lead to greater job creation.

The Africa Growth and Opportunity Act (AGOA), which provides preferential access to the United States (US) market for African exports, was implemented in January 2001. Between January and October 2001, 8,8% of South African exports to the US entered the US market under AGOA. Total South African exports (in dollars) to the US grew by 8,4% in 2001, despite anti-dumping actions against South African steel exports.

Despite the longer-term trend toward manufacturing exports, exchange rate depression caused gold and platinum production and export revenues to soar in the latter half of the year. The value of mineral exports rose by 17,3% in the year to November 2001, while the value of non-mineral exports rose by about 29%.

Higher prices for imported goods resulted in a sluggish demand in the first three quarters of 2001, with import volumes rising by 1,3% compared to the same period of 2000. From the third quarter, imports weakened further, with substantial declines in the importation of textiles, machinery and electrical equipment and chemicals. It is estimated that merchandise imports fell by 1,2% in 2001. Oil imports accounted for about 13% of imports in 2000 (from 8% in 1995), due to the sustained rise in crude oil prices over the last two years and higher rand prices.





SARS TRANSFORMATION

SARS transformation programme

(Siyakha – “We are Building”) will improve operational efficiency, organisational effectiveness and meet the needs and expectations of taxpayers/traders

The SARS transformation programme is the most ambitious organisational transformation in the history of tax/Customs administration in South Africa. The key elements of the strategy are process re-engineering, adoption of a customer-centric view, appropriate leveraging on technology, feasible tax and Customs integration and risk responsiveness in SARS business.

Siyakha



The financial year witnessed the roll-out of the Siyakha pilot in KZN. This sought to provide the processing and physical infrastructure required for SARS transformation through the introduction of a focused approach in four areas, namely service, processing, compliance and Customs. Overall, the pilot was a success in enhancing processing efficiency and effecting the migration towards a team based culture. Further, the establishment of a dedicated service centre and Points of Presence marked a significant shift towards a service orientated approach. Key learnings provided by the pilot were in the areas of fragmentation across centres, skills gaps and the need for enhanced service and technology enablement.

Siyakha 2

The changing environmental dynamics (internally and externally) coupled with the opportunities provided by the Information and Communication Technology (ICT) revolution, highlighted the need to expand the present scope of Siyakha in order to leverage on technology, further entrench a service culture and achieve integration (among centres and between tax and Customs components). This expanded the original Siyakha programme into a technology enabled, enterprise-wide Siyakha, termed Siyakha 2.

An enterprise-wide approach will be adopted in the implementation of Siyakha 2 that will enhance organisational capability. It is envisaged that this will be achieved by the following key measures:

- Implementing cross-functional customer-centric business processes
- Entrenching a service culture that is responsive to the needs of the public
- Enhancing revenue collection
- Proactively measuring and reducing the tax gap
- Increasing compliance and enforcement capability
- Appropriately integrating Revenue and Customs
- Investing in feasible, cost effective technology that improves service delivery and processing efficiency
- Empowering our staff by upgrading their skills and competencies and providing an environment that supports learning and innovation

It is envisaged that Siyakha 2 will be rolled out during the MTEF period. This will effectively position SARS to proactively respond to environmental changes through enhanced organisational capability and enterprise-wide coherence and alignment.

OVERVIEW OF SARS MAIN BUSINESS LINES AND ACHIEVEMENTS

A profile of the SARS core business

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

- General framework
- Tax register profiling
- Tax operations
- Processing of tax returns
- Tax collections
- Tax compliance
- Implementation of tax proposals
- Customs operations
- Litigation

General Framework

The general framework covers issues such as the achievement of revenue targets, an analysis of revenue results, policy issues, new business approaches and service levels.

Achievement of 2001/2002 revenue target

SARS exceeded the printed revenue target of R234 billion by R15,2 billion and narrowly missed the revised estimate of R249,42 billion by R180,67 million (0,07%). The reduction of R180,67 million over the revised estimate does not, however, include stale Income Tax and VAT refund cheques which were added back to revenue during the 2001/2002 financial year. This revenue, amounting to R192,51 million, is included in the Departmental Revenue and therefore does not impact the SARS collection target. The total revenue collected in the financial year exceeded the previous year's actual collections by 14,1% (approximately R30,8 billion).

2001/2002 REVENUE RESULTS

Source of Revenue	Printed estimate R234bn R'000	Revised estimate R249,42bn R'000	Actual result R'000	Increase/Decrease on printed estimate R234bn R'000	Increase/Decrease on revised estimate R249,42bn R'000
Income Tax	131 582 000	149 600 000	147 310 360	15 728 360	(2 289 640)
Value-Added Tax	60 350 000	58 600 000	61 056 609	706 609	2 456 609
Customs Duties	9 237 000	9 000 000	8 632 203	(604 797)	(367 797)
Fuel Levy	15 310 000	14 988 000	15 110 120	(199 880)	122 120
Excise Duties	10 625 000	10 361 000	10 573 354	(51 546)	212 354
Other	6 914 000	6 873 000	6 558 678	(355 322)	(314 322)
Total SARS Revenue	234 018 000	249 422 000	249 241 324	15 223 324	(180 676)
Departmental Revenue	4 825 000	4 480 205	4 567 164	(257 836)	86 959
Skills Development Levy	2800 000	2 750 000	2 717 255	(82 745)	(32 745)
Less: SACU Payment	8 205 000	8 205 000	8 204 820	(180)	(180)
Total National Revenue	233 438 000	248 447 205	248 320 923	14 882 923	(126 282)

Income Tax

Income Tax amounted to R147,310 billion which is R15,723 billion higher than the printed estimate.

Income tax from persons and individuals is lower than the printed estimate mainly due to higher refunds resulting from accelerating processing of returns.

Income tax from companies exceeded the printed estimate. This was attributable to the following factors:

- Increase in provisional tax payments across most sectors due to enhanced compliance measures, that is an adjustment of basic amounts for provisional tax purposes. In addition, export oriented sectors, particularly those producing chemicals and base metals, benefited from the depreciation in the rand value and higher commodity prices
- Receipt of approximately R800 million from the banking sector
- The enhanced collection capability provided by the Woodmead Project

Collections in respect of Secondary Tax on Companies (STC) was R2,96 billion higher than the printed estimate resulting from higher corporate earning distribution, mainly in the resource sector.

Value-Added Tax

VAT collections for 2001/02 amounted to R61,05 billion which is R707 million in excess of the printed estimate. This is attributable to pre-emptive consumer purchases in December/January and improved consumer expenditure during February.

VAT also contributed an average of R500 million per fiscal year from 1998/99 to 2001/02 to the surplus.

The increase in revenue collections, in the context of steady economic growth, has enabled Government to increase spending on vital public goods and services, as well as reduce the fiscal deficit and public debt. This has indirectly contributed to lower interest rate levels and has provided a boost to investor confidence.

	TAX REVENUE AS % OF GDP	TOTAL EXPENDITURE AS % OF GDP	TOTAL REVENUE AS % OF GDP
1996/ 97	23,2%	27,6%	23,1%
1997/ 98	23,6%	27,2%	23,3%
1998/ 99	24,5%	26,7%	28,9%
1999/ 00	24,4%	26,2%	28,7%
2000/ 01	24,1%	25,7%	28,6%
2001/ 02	25,1%	26,5%	29,6%

The table above illustrates the national government revenue and expenditure as a ratio of GDP:

These gains have created conditions in which real tax cuts have released resources for private sector investment, consumption and further improving the growth prospects for the economy. From 1995/96 to 2000/01, Government has put R33,55 billion back in the hands of consumers by way of tax cuts. In addition Government has for the financial year 2002/2003 provided relief to the extent of R15 billion, representing 30,89% of the total tax relief of R48,55 billion over the period 1995/96 to 2002/03.

Summary of tax relief provided to individuals

	Individuals
1995/96	2 000 000
1996/ 97	2 000 000
1997/ 98	2 800 000
1998/ 99	3 700 000
1999/ 00	4 850 000
2000/ 01	9 900 000
2001/ 02	8 308 000
2002/ 03	15 000 000
TOTAL	48 558 000

Tax Policy Framework

The 2001/02 year gave rise to the following set of tax proposals. A key feature was the introduction of Capital Gains Tax to broaden the tax base and effectively reduce arbitrage opportunities exploited by shifting income to capital. The codification of these proposals led to the promulgation of the following legislation:

The Taxation Laws Amendment Act, 2001:

- Introduction of Capital Gains Tax



The Revenue Laws Amendment Act, 2001 which provided, among others:

- Strategic investment incentive
- Bringing directors of private companies within the PAYE system
- Accelerated capital allowances for small manufacturing corporations
- Capital allowance for airport infrastructure
- Enabling provisions for Duty at source
- Licensing, registration and accreditation of persons doing Customs business
- Various enabling provisions to accommodate better control over goods for Customs purposes

Second Revenue Laws Amendment Act, 2001:

- Refinement of Capital Gains Tax legislation
- Group re-organisation relief
- Customs and Excise administration of industrial development zones

SARS also finalised the Unemployment Insurance Contributions Act, 2002 which was promulgated on 28 March 2002. This legislation was closely aligned with:

- The Unemployment Insurance Act, 2001, to give effect to the strong link between contributions and benefits. This is fundamental to the new unemployment insurance system
- The employees' tax provisions of the Income Tax Act, 1962, to simplify administration and collection of contributions for both taxpayers and SARS

International Tax Treaties

During the financial year, Double Taxation Agreements were negotiated or re-negotiated with countries in Africa and the rest of the world as follows:

Africa

- Botswana
- Ethiopia
- Gabon
- Malawi
- Morocco
- Mozambique
- Namibia
- Rwanda
- Swaziland
- Zambia
- Zimbabwe

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

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

Rest of the World

- Belarus
- Bulgaria
- Estonia
- Germany
- Kuwait
- Latvia
- Lithuania
- Oman
- Portugal
- Spain
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom

Preliminary presentations to the Parliamentary Finance committees were made and approved in respect of the tax treaties with:

- Belarus
- Bulgaria
- New Zealand
- Oman
- Rwanda
- United Kingdom

Other taxes

The total of other taxes amounted to R6,55 billion which is R355 million lower than the printed estimate. This is due to reductions in the revenue from mining leases and marketable securities tax.

Customs Duty

Customs duty collections amounted to R8,63 billion which is R605 million lower than the printed estimate. This is due to a lower than expected growth in imports.

Fuel Levy

An amount of R15,11 billion was received in respect of fuel levy which is approximately R200 million lower than the printed estimate. Fuel consumption/levy collections are influenced by monthly price adjustments. Petrol sales declined slightly whereas diesel sales registered a growth of 3,7%. The growth in diesel sales was largely influenced by the uptake in mining activities.

Growth in fuel consumption

Year	Increase
1995	5,3%
1996	5,6%
1997	2,5%
1998	1,5%
1999	0,6%
2000	-1,6%
2001	-0,5%

Excise Duty

Excise duty collections amounted to R10,57 billion representing a shortfall of R52 million over the printed estimate, mainly due to lower collections from beer.

Revenue collections since 1995/1996

	1995/1996 R'000	1996/1997 R'000	1997/1998 R'000	1998/1999 R'000	1999/2000 R'000	2000/2001 R'000	2001/2002 R'000
Target	125 182 000	143 746 000	161 732 000	177 197 600	191 162 000	209 079 281	231 018 000
Efficiencies added to target	100 000	1 500 000	2 500 000	2 000 000	2 735 000	3 100 000	3 000 000
Printed estimate	125 282 000	145 246 000	164 232 000	179 197 600	193 897 000	212 179 281	234 018 000
Total additional collections	1 896 989	1 805 656	1 112 000	5 224 831	6 323 955	7 418 481	15 223 324
Actual collections	127 178 989	147 051 656	165 344 600	184 422 431	200 220 955	219 597 762	249 241 324
Revised target	127 037 000	146 048 600	163 864 000	181 076 000	198 944 000	215 482 000	249 422 000
Actual collections	127 178 989	124 951 656	165 344 600	184 422 431	200 220 959	219 597 762	249 241 324
Additional above revised estimate	141 989	1 003 056	1 480 600	3 346 431	1 276 955	4 115 762	(180 676)

The additional amounts collected (collections above the original estimate) over the period 1995/96 to 1999/00 were mainly due to improved collections from persons and individuals.

Collections from companies also improved and on average were R500 million above the original estimates for the period, except in 1997/98 when there was a decline of R1,2 billion against the estimate.

Trade Protocols and Customs Agreements

In October 2001, Southern African Customs Union (SACU) Ministers of Finance and Trade concluded an agreement to guide a new institutional and revenue agreement for SACU, which will come into force after being signed and ratified by member states. The new formula will consider Excise and Customs revenue separately to enable a more stable flow of revenue to the BLNS countries (namely Botswana; Lesotho; Namibia and Swaziland) as these countries reduce Customs duties in line with World Trade Organisation (WTO) commitments.

The South African Developing Countries (SADC) Tax Subcommittee which is chaired by South Africa, was established on 5 July 2000 to identify and develop areas of cooperation in tax administration and policy aimed at building stable and efficient tax systems that will facilitate trade and investment, while securing a regional tax base. Over the past year, the primary focus of the Subcommittee's work has been the development of a Memorandum of Understanding. It is anticipated that it will be signed by members during 2002 and will be incorporated into the SADC Protocol on Trade and Investment, to be signed in 2004. Capacity building is the cornerstone of the Tax Subcommittee's responsibilities. In this respect, during the past year workshops were held on revenue estimation and quantitative analysis of tax policy, double taxation agreements, tax incentives and value-added taxation.

Memoranda of Understanding were signed with Mozambique, Netherlands and Zambia. Negotiations are underway with Malawi, Zimbabwe, Hungary, Spoornet, Portnet, Airports Company of South Africa (ACSA), and South African Airways (SAA).

New Business Approaches

- Re-engineering of business processes to improve turnaround times, quality of service and to reduce administration costs
- New business architecture which leverages scarce organisational resources
- The development of an integrated e-business strategy
- The introduction of multi-skilled work teams
- Focusing on areas of high risk to better utilise core enforcement competence and improve compliance levels

Service Levels

SARS is continuously striving towards improving its service delivery to the public. During the past year the following initiatives were launched:

- Creation of a Service division to focus on the service, information and education strategy and institutionalisation thereof
- Introduction of new Service Centres in KZN per the Siyakha roll-out which represents the primary frontline area for taxpayers
- Dedicated service areas in most branch offices
- Adoption of key performance indicators (KPI's) in 90% of the revenue branch offices
- Implementation of a Monitoring unit to resolve complaints received by the Commissioner's and Minister's offices
- Enhancing service at Customs ports of entry
- Effecting road shows and providing publications to support the successful implementation of Capital Gains Tax
- Providing publications on residence based system of taxation and other related employment and business issues
- Publishing a number of Value-Added Tax (VAT) related guidelines and VATNEWS to inform vendors on changes to the law and procedures
- Developing mutually beneficial partnerships with the legitimate business community and other stakeholders. These include South African Institute for Chartered Accountants (SAICA), South African Chamber of Business (SACOB), Association for the Advancement of Black Accountants of Southern Africa (ABASA), Certified Financial Accountants (CFA), Banking Council SA and Southern African Developing Countries (SADC)

Tax Register

Active cases on register are an indicator of the expansion of the tax base and are impacted upon by economic conditions, legislative changes and general levels of compliance.

The composition of the register is as follows:

Individuals	67%
Companies	20%
PAYE	4%
VAT	9%

During the financial year, growth was recorded in all registers resulting in an overall expansion of the tax register by 10.6% (approximately 511 000 taxpayers).

Category	Total on register	Change '01	Change '00
Income Tax	4 637 811		
• Individuals	3 556 023	11,58%	13,9%
• Companies	1 081 788	10,76%	16,3%
PAYE	219 732	3,93%	(1%)
VAT	479 666	6,44%	(10,8%)
TOTAL	5 337 209		

The increase in the various registers is due to:

- Overall improved compliance environment due to more focused and visible enforcement interventions
- Increase in the company register as a consequence of the SACRO (company registrar) interface which reduced tax evasion by non-registration
- Increase in the PAYE register due to legislative changes requiring directors of private companies to render PAYE
- Increased enforcement and information requirements in this area (increase register by 17 000 following the introduction of PAYE on director's remuneration)
- Increase in VAT due mainly to natural growth

Tax Operations

Tax Processing

The operational productivity of SARS is largely dependent on efficient processing. The processing cycle consists of registration, maintenance, issuing of returns and assessment of clients' submissions regardless of whether it is a direct or indirect tax type. Within these functionalities (concentrated within the War Rooms, dedicated Processing Centre or the branch office), the primary objective remains the most efficient and cost-effective processing of returns with a high degree of quality and accuracy. The processing function has critical dependencies with both the service and enforcement functions in terms of providing information and enhancing optimal performance.

Movements in the following areas are key indicators of productivity levels:

- Returns outstanding
- Returns unassessed

Outstanding Returns

Returns issued to clients for payment or assessment, as the case may be, must be submitted to SARS in terms of the relevant legislation. Returns not submitted when an obligation to do so exist are regarded as outstanding. The active management of these is critical to contain the risk of non-compliance, both in terms of return-filing and consequent debt exposure. Ultimately, when the administrative treatment is perceived to be unfair, these may erode the integrity of the administration and negatively affect taxpayer morality.

The granting of extensions for the submission of returns is an area that requires careful managing as it directly impacts processing volumes and the flow of funding to the fiscus. Further, long extensions create opportunities for taxpayers to defer their payment of taxes.

Thus, the active measurement and containment of all outstanding returns, whether legitimately or otherwise, is pivotal to the success of SARS.

The following statistics reflect the state of affairs as at 31 March 2002 in relation to outstanding returns issued to taxpayers on register. This measurement is influenced by new registrations, de-registrations, extensions granted and non-compliance with return dates.

TYPE OF RETURN	31/03/02	31/03/01	FINANCIAL YEAR % CHANGE	PRIOR YEAR % CHANGE
Individuals	1 821 945	1 745 801	4%	12,4%
Companies	994 539	871 703	14%	4,3%
PAYE	860 443	509 187	69%	29,7%
VAT	552 022	301 807	83%	99,3%

Significant increase in outstanding tax returns is due to:

- Timing of the issue and receipt of various returns
- The refocusing of scarce human resources on enforced collections in order to meet the challenging revenue target
- System problems in the area of follow-ups that distorted the statistics

Notwithstanding the above, the critical importance of containing the incidence of outstanding returns has seen this item become the focus of a special initiative in the forthcoming financial year.



Returns Unassessed

The following table reflects the work in progress in the processing of returns received as at the end of the financial year.

	Number		% Change
	2001/2002	2000/2001	
Companies	80 085	78 748	1,7%
Individuals	233 873	378 653	38,2%
Trusts	23 652	21 036	12,4%
TOTAL	337 610	478 437	-29%
Active cases	4 437 811	4 163 792	6,5%
% unassessed of active register	7,28%	11,49%	

- Overall 29% decrease in unassessed returns in spite of an 11% increase in the active register
- As a percentage of the active register for the relevant year, unassessed returns have decreased, which is a result of the enhanced processing capability

Returns Processed

Reflects the work in progress in the processing of returns received as at the end of the financial year

	Total Number processed during		% Change
	2001/2002	2000/2001	
Returns Processed	3 154 404	2 119 985	48,79

The material increase in the number of returns processed (just over a million) is attributable to:

- Establishment of two additional rapid process areas (War Rooms) to address work in progress - cycle time reduced to less than 30 days per annum on average nationally
- Establishment of three additional VAT/PAYE pipelines
- Roll-out of KZN Siyakha pilot – establishment of processing centre

War Room Concept

The War Rooms were conceptualised along the following principles:

- Dedicated staff would be utilised per function, while emphasis would be placed on simplifying the various activities
- Workflow was designed to ensure that prepared consignments would enable bulk processing
- Temporary staff were appointed and trained to work at a rapid pace within the constraints of editing and capturing of returns
- No contact was allowed between the back office function and the taxpayer, thereby ensuring uninterrupted processing

Through this approach, the War Rooms have succeeded in processing substantial quantities of Income Tax returns. Consequently the War Rooms have been expanded with the introduction of the VAT/PAYE pipelines and the processing of IRP6 returns.

RETURNS PROCESSED	2001/2002
4 X War Rooms	1 385 622

The War Rooms have been the training field for vast numbers of editing and capturing staff.

Compliance Division

During the past year, the compliance component was integrated to encompass collections, audit and special investigation functions and divisions. This assisted with the adoption of a coherent approach to enforce compliance in respect of non-compliant taxpayers and outstanding debt. Such a step has signalled a definitive change in the seriousness of SARS towards improving the compliance landscape and culture in South Africa.

Enforced Collections

Over the reporting period, the collections division exceeded their target of R12,6 billion by R600 million. Key areas of focus contributing to this achievement were:

- Actual results amounted to R13,2 billion which compares favourably against the target of R12,6 billion
- Introduction of a draft collection policy that reoriented the collection strategy employed and ensured administrative justice
- Establishment of field collection teams in SARS branch offices
- Increased emphasis on Customs debt reduction
- Implementation of the collections outbound call centre, which contributed R376 million
- Successfully piloted co-sourcing aspects of debt collection as regards to low debt below a suppression level of R2 500

The following reflects the outstanding debts as at year-end:

	R		% Change
	2001/2002	2000/2001	
Individuals (Income Tax)	7,6	5,6	35,80%
Companies (Income Tax)	9,9	7,6	30,06%
PAYE	7,1	4,3	62,10%
VAT	14,6	11,8	23,07%
TOTAL	39,2bn	29,4bn	33,10%

Growth in tax type debt

VAT	24%
PAYE	65%
Income Tax	9%

Reasons for the variance:

- For the past three years no write-off functionality in terms of writing off irrecoverable debt was available on the income tax system
- The impact of the interim performance management system shifted the focus to collection of new debt which was easier to collect
- Greater debt on the books due to increased yield from more intensive focused auditing (R10,3 billion)
- Provisional tax is an addition to the debt and only started to feature in the previous financial year

Of the debt at 31 March '02

	R'bn	% Composition	% Change in Register (2001/2002)
Income Tax	17,5	44,6	10,48
VAT	14,6	37,3	5,8
PAYE	7,1	18,1	2,24

There has been a steady increase in debt compared to prior years

	March '01 R'bn	March '02 R'bn	% Change
Interest	4,0	5,1	27,5
1-8 Months	6,3	9,9	57,14
>8 months	19,1	24,2	26,75
TOTAL	29,4	39,2	33,33

Material increase in outstanding debt from the previous year (33%) due to:

- Increase in register; 9,7% growth from last year
- 47% (more than 1million) increase in returns processed from prior year
- Increase in interest due to a large portion of the debt (27%) being older than 8 months

Debt Management System

A manual debt management system was developed and implemented in all SARS offices throughout the country. This entailed the coding and categorisation of debt to facilitate a more focused debt reduction strategy and tracking system. In addition, a separate system was developed and implemented for Customs and Excise in 13 offices.

Promotion of Electronic Filing and Payments

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

Key statistics for the year to date in respect of E-filing:

Number of registered tax practitioners	1 066
Number of registered taxpayers	6 150
Number of VAT 201 returns submitted	4 064
Number of employee 201 returns submitted	4 248
Number of IRP6 returns submitted	2 158
Total number of submissions	10 470
Monetary value of submissions	R4 126 767 448.31
Monetary value of VAT credits	(R1 367 254 049,75)
Number of payments made	5 597
Total value of payments	R942 835 530,23

While the subscription to the service has not been as high as expected, e-filing offers significant opportunities to SARS in terms of reduced administration and compliance costs, substantially reduced error rates in processing and quicker receipt of monies due to SARS without the hindrance of performing complex reconciliations.

The new year will see a greater effort being expanded to enhance e-filing and payment subscriptions by taxpayers.

Audit

The financial year saw the implementation of the audit policy (supported by a new reporting and tracking mechanism) that defines the overall strategy and focus in respect of:

- The types of audits to be conducted and the applicable context for such intervention
- The selection of cases for audit work, primarily driven by a risk-based approach supported by intelligence gathering activities
- The structure and composition of audit teams as well as the professional conduct of audits
- Reporting and information generation requirements

This was complemented by the shift towards field and integrated audits and away from primarily office or desk audits. Integrated audits view the taxpayers'/traders' affairs across all tax types, thereby increasing the detection of arbitrage activities and incidence of non-compliance. The implementation of a manual risk assessment process and an electronic risk assessment programme (SARAP) has provided critical tools in this respect. Work is currently underway on the development of a compliance model and toolkit to assist auditors and frame the overall compliance approach to guide enforcement activities.

The introduction of audit teams in KZN following the establishment of the Compliance Centre, signalled a more collaborative approach to audit and a distinct culture shift. This strategy has already begun to show benefits in the form of improved results.

Significant Accomplishments

The adoption of a more focused, risk-based approach to enforcement resulted in a significant improvement in yield from audits. The value of additional tax assessments raised by auditors amounted to:

TAX TYPE	2001/2002 RESULT	2000/2001 RESULT	% Change
VAT	3 866 896 668	2 880 302 796	35%
PAYE	507 230 523	475 507 974	7%
Income Tax	5 127 059 878	3 014 350 104	70%
Other	820 237 652		
TOTAL	10 321 424 721	6 370 160 874	62%

Of the additional assessments raised, 68% (approximately R7 billion) was collected by year-end.

Increase due to:

- More in-depth audits resulting in an increase in revenue generated per audit. Interim risk profiling teams responsible for identifying high risk, high revenue yield cases were put in place at the bigger offices, resulting in more time being spent on these cases
- Refund scanning, which accounted for large numbers of desk audits/examinations in the prior year was incorporated into the processing component and no longer contributed to number of audits conducted
- Audit KPI's, with new definitions were implemented in April 2001. The measuring element pertaining to prior periods used a different standard for illustrating the number of audits (returns rather than cases audited)
- Integrated audit teams due to the inherent nature and focus of their work were not designed to address high volume work

% Strike rate	34%
Average net revenue per case	R39 445
Average net revenue per auditor	R7 500 000

The use of risk profiling represents a new concept in SARS administration and as such demands greater technical skills. While there has been improvement in the success of audit results, it is anticipated that further refinement will yield greater returns in the next financial year.

Special Investigations

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

- The successful application of a 7-step investigation process to ensure that cases falling within the ambit of the division adhere to the prescribed selection criteria
- Positive media coverage of prosecutions once the case has been made public through the court process
- Pursuing effective partnerships with other law enforcement agencies

This approach has resulted in assessments being raised to the incremental value of R467 627 674. An amount of R162 164 316 was either actually collected or secured in the form of guarantees or payment terms agreed to. Of the 184 cases finalised and submitted for prosecution, 53 have gone through the court process and resulted in successful convictions.



Research and Analysis Unit

During the current period, a research and analyses unit was established to provide tactical and strategic intelligence support to guide and inform enforcement strategies. Primary deliverables of the unit are:

- Development of an organisation-wide risk management methodology
- Provision of national risk analysis and sector specific industry analyses
- Establishment of key partnerships to ensure ongoing information collection
- Generation of taxpayer profiles to expedite investigations and audits
- Environmental scanning to proactively address emerging areas of high risk
- Provide tactical support to investigating units

During 2001/02, the unit successfully negotiated agreements with the Departments of Transport, Home Affairs, the National Intelligence Agency and the South African Police Services. This has contributed to reduced turnaround in the provision of intelligence products.

Other achievements:

- Finalised in conjunction with the technology and business divisions, the initial requirements for the development and implementation of the suspicious activity system. This is aimed at reduced turnaround time in case allocation, enhancing the verification and data analysis process and providing a platform for accessing and storing information for further application.
- The following in-depth industry analyses were generated:
 - Clothing and Textile
 - Tobacco Industry
 - Tobacco Smuggling
 - Frozen Fish Export Industry
 - Oil Industry
 - Diamond Industry

Internal Investigations

The unit focuses primarily on investigations of external tax fraud and Customs duty to the extent that it involves fraud and collusion within SARS. A further area of emphasis is raising the awareness in offices. During the year, investigations conducted by the Unit resulted in 79 dismissals of staff, of which 49 were dismissed for fraud and corruption. The remaining cases related to violation of SARS policy and human resource issues such as absconding.

Security

The unit's mandate is to protect SARS personnel, assets and intellectual property against harm and/or loss. It comprises of subunits for physical security at Head Office, Vetting and VIP Protection. Key achievements during the year were:

- Drafting of a personnel security policy for the vetting of SARS personnel
- Establishment of the VIP Protection Unit to ensure the safety of the SARS executive and other relevant personnel

This included the requisite training for staff in the unit

- Designing and installing integrated security systems for the Centres in KZN and Western Cape
- Development of information security policies
- Training of all security officers
- Upgrading of electronic systems at Head Office and State Warehouses coupled with the implementation of more effective procedures

Special Compliance Unit

The unit became operational during the latter part of the reporting period with the mandate being to investigate anti-compliant and non-compliant taxpayers or cases that are sensitive in nature and where the investigation may have a substantial economic impact and where specific outcomes are required.

Key achievements by the unit were:

- Issuing of assessments in excess of R1 billion
- Collection of R40 million, with an additional R62 million being secured
- 100% case success rate with 20 cases reaching successful prosecution

Revenue Optimisation Strategy

A Revenue Optimisation Strategy (ROS) was developed and piloted in the Western Cape and will be implemented in the coming year. The initiative seeks to identify risk through the comparison of third party information to that on the tax register and attendant files. In the pilot it was discovered that 8 183 entities were either not registered, did not submit returns or did not make declarations regarding their properties as obliged to do so.

Compliance Training

Various training courses were developed and implemented for compliance. The highlights are:

- A comprehensive two-week generic audit course was developed. With the exception of auditors in KZN where the training is still continuing, all auditors countrywide were successfully trained on the course. Some criminal investigators have also attended the course
- All collectors received basic training on the collections manual
- 50% of collectors received specialised collector's training
- The completion of training interventions (Basic Introductory Fraud Investigator's Course) to equip investigators with the tools required for successful criminal investigations. In addition, several members of staff have also completed the practical aspect which deals with knowledge application in the investigation process and exposure to mock trials
- Criminal investigator's practical course was completed and 30% of the investigators attended the course
- Specialist courses in transfer pricing and gaming were provided with international assistance

Customs Operations

Due to globalisation and regional integration, the climate of Customs has changed to allow for more trade facilitation rather than control focus in effectively implementing the various trade agreements and protocols to support legitimate trade. However, the terrorist attacks on the US on 11 September 2001, have increased the focus on controlling the illegitimate movement of goods and labour, emphasised national security and the need to counter eco-terror threats.

While this poses an enormous challenge, the Customs component has achieved the following during the period under review:

- The successful implementation of the client accreditation scheme which results in legitimate traders being accredited and deriving the benefits of improved service as long as they remain compliant
- Adoption of teaming nationally to allow for greater skills transfer and enhance Customs culture
- Implementation of the export project
- Registration initiative that contributed to a more comprehensive database of traders and facilitating an integrated view of the client
- The completion of all functional specifications for the Customs Siyakha initiatives
- Examination levels were raised to 5% at larger offices with the exception of Beit Bridge
- Conducted 20 Mobile Unit Inspections in areas of high risk (exceeded the target of 8 inspections)
- Enhanced Customs infrastructure through the purchase of additional computers, scanners, vehicles and general equipment
- Alignment of procedures with Revised Kyoto Convention - new enabling legislation and rules governing transit, warehouse control and declarations have been established. In addition, a quality management system has been implemented to ensure that all policy and procedures adhere to the recommendations within the Convention

Accreditation of low risk traders

The accreditation system was implemented in March 2002. SARS has reached an agreement with the Edgars Consolidated (Edcon Group) which entails the group not dealing with suppliers who are not accredited by SARS. A strong campaign is underway to audit and accredit approximately 600 Edcon suppliers. An extensive workshop was held with the Road Freight Association to explain the details of accreditation and its benefits. The Association has launched a campaign to promote accreditation and prepare its members for accreditation. Thus far, 19 clients have been accredited, which include the biggest four clients of SARS in terms of volume.

Electronic submission of declaration

During the reporting period, a more powerful server was acquired to handle the expected increase in the volumes of electronic messaging. It has been fully operational since November 2001 and currently 60% of declarations are submitted electronically.

In addition, a system to process documents electronically has been developed and implemented at Johannesburg International Airport as a pilot. Of the 60% declarations submitted electronically, approximately 50% are received from accredited clients and processed electronically. The benefit for these declarations has been a reduced turnaround time to under two hours.

Risk-based passenger control system

A new passenger declaration form has been published and systems which are being piloted at Cape Town International Airport have been developed. Anti-smuggling teams have been established in all offices. Each team includes risk analysts who profile passengers using manifest information.

Training and Development

67 staff members have participated in a three-week Customs course. With the help of international Customs consultants SARS has devised a one week Technical Management Training Course. 147 Customs staff have completed the course (88% of branch management staff)

Operational statistics

The following table highlights trade volumes during the period:

Total value of imports and exports in Rands

January 2001 - December 2001		January 2000 - December 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R217 252 505 565	R253 579 543 664	R186 476 474 495	R210 512 684 657

Total number of transactions

January 2001 - December 2001		January 2000 - December 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R1 455 171	R1 287 213	R1 462 611	R1 152 884

Total value of SADC imports and exports

January 2001 - December 2001		January 2000 - December 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R2 659 610 518	R22 681 430 893	R2 184 581 755	R24 107 848 185

Total value of European Union imports and exports

January 2001 - December 2001		January 2000 - December 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R80 890 771 425	R73 479 505 433	R67 166 176 382	R57 934 546 342

Litigation

In an attempt to reduce both administrative costs and compliance burdens imposed on taxpayers, an alternative dispute resolution procedure was initiated. It is envisaged that this will provide an informal resource mechanism to taxpayers in an attempt to resolve issues of contention. These measures will be exploited to minimise the incidence of litigation and enhance the perception and integrity of SARS.

Appeals

Special Court

	2002	2001
Appeals won	12	21
Appeals lost	2	16
Cases withdrawn	41	36
Cases postponed	31	33
Cases conceded	10	15
Cases settled	34	21
Referred back	6	9
Awaiting judgement	6	4
TOTAL	142	155

High, Constitutional and Supreme Court

SARS was involved in 51 matters in the High Courts, Constitutional and Supreme Court of Appeal. In 38 cases SARS was successful and in 13 cases not.

Customs and Revenue	2002	2001
Cases currently pending	140	82
Cases pending before Constitutional Court	0	1
Cases pending before Supreme Court of Appeal	20	7
Cases settled	15	11
Cases successfully defended	38	31
Cases lost	13	6
TOTAL	226	138

SARS SUPPORT SERVICES

The vision of support services is to be a strategic partner to core business by anticipating and appropriately responding to divisional needs in a timely manner

Human Resource Division

A key aspect that underpins the functioning and strategy of the Human Resource (HR) division is the aspiration of SARS to be an employer of choice. HR policies and strategies for change management and communication, collaboration with unions, skills enhancement and employee recruitment and retention underpin this philosophy.

Key achievements by the division during the period were:

- Facilitating the transformation roll-out with regard to:
 - Negotiating and implementing an agreement with Unions on the Siyakha People Placement Protocol
 - Enabling the necessary appointment and deployment of management and staff in the roll-out for KZN
 - Appointment of Gauteng and Western Cape management teams
- Verification of new job grades for all employees
- Implementation of the ACCA qualification programme to enable staff to graduate to the level of recognised accounting professionalism
- Rationalisation of the employee health insurance
- Implementing employee assistance programmes to assist staff in coping with the transformation changes and the provision of training to managers and other stakeholders
- Enhanced management training
 - Training of all team leaders and managers in KZN and Western Cape
 - Training of all Customs team leaders and managers
 - Providing the INSEAD partnership intervention for the senior management team
 - Participation in the GIBS programme – approximately 30 senior managers attended the executive development programme
 - Development of 40 employees through the Leadership Development Programme (LDP)
- Introduction of an Interim Performance Management System (IPMS)



Recruitment

There were 11 006 employees on the payroll, almost 183 more employees than the previous year. The staff turnover rate was 5,4%, which is lower than the national average estimate of 6,4%. However, poaching of audit staff by the private sector remains a source of concern.

Several recruitment processes were undertaken during the financial year:

- Recruitment drive to attract former South African National Defence Force (SANDF) members to fill entry-level positions in the Customs divisions. To date 38 members have been given offers of employment.
- A graduate training programme was also launched during the year with an extremely favourable response. Customs will offer approximately 83 graduates entry level positions
- The Siyakha people placement team appointed and deployed 1 400 employees in the KZN region. Using a battery of selection processes close to 600 new positions were filled mostly from internal applications. Due consideration was given to the Employment Equity Act and SARS employment equity targets. The processes of selection in the Western Cape and Gauteng regions are at an advanced stage.

Employment Equity

Category	March '98	March '99	March '00	March '01	March '02
General staff	34%	38%	41%	42%	45%
Supervisory staff	10%	13%	19%	22%	25%
Management staff	9%	18%	38%	40%	39%
All staff	32%	36%	38%	40%	44%

Discipline

Staff dismissals:

- 13 employees were dismissed for fraud in comparison to 41 the previous year
- 27 employees were dismissed for absenteeism compared to 27 the previous year

Training and Development

A substantial amount of training took place during the period, primarily in preparation for the Siyakha roll-out in KZN, with 1 033 courses being presented by the Human Resource Development section. In total, 13 333 participants attended these courses.

Numerous interventions occurred in the area of soft skills, specifically taxpayer service training, management and team leader skills training.

The Human Resources Development section facilitated Income Tax, VAT and other tax training.

Collective Bargaining

Agreement was reached with the trade unions on the Siyakha restructuring protocol. This agreement facilitated the satisfactory KZN roll-out of the Siyakha pilot. It remains the overall framework agreement with the trade unions for the continuation of the SARS transformation process.

Career ladders

Career ladders were introduced into the organisation to provide structured career path development for the core business areas of the organisation as a method to attract and retain skilled employees and to become a preferred employer of choice. Positioning provides specific information related to key deliverables and achievement of the organisation's strategic goals. 8 500 employees were positioned on career ladders to determine the appropriate level of job output delivery and demonstrated competencies. It is envisaged that career ladders will be developed in the near future for other areas of the business in order to align the support services to the core business areas and the ultimate achievement of SARS goals.



Partnership with Accredited Certified Chartered Accountants (ACCA)

A partnership was established between SARS, ACCA and the University of Pretoria to deliver the ACCA auditor training programme. This programme has been registered with the Department of Labour through the Financial and Accounting SETA (FASSET) as a learnership. 120 SARS employees have been registered as learners with ACCA. The lectures have commenced with effect from March 2002. Currently the measures are being collated to determine eligibility for performance rewards. The results have been collated on a team-based approach rather than on an individual basis.

Finance Division

Following the commitment of being a strategic partner to the core business and anticipating and responding appropriately and promptly to core business needs, Finance Division has not only consolidated but significantly improved the core processes, internal controls and financial reporting.

The division's strategic objectives are:

- A reduction in SARS operating costs through Procurement reform whilst complying with Black Economic Empowerment policy (BEE) and best practice
- The Enhancement of Financial Controls through overall improvements in internal controls, accountability, skills and best practice
- Implementation of more appropriate financial reporting through the migration to GAAP and value-added reporting that will facilitate decision-making by all stakeholders

The Public Finance Management Act (PFMA) deadlines for the submission of the audited annual financial statements were met as required. Significant progress has been made in strengthening the working relationship with the Office of the Auditor-General through both top-level liaison and the establishment of working groups. This has facilitated the audit process and contributed to a more focussed audit strategy that addresses current risks.

Internal Audit

The Commissioner is responsible for establishing and updating business objectives and goals, implementing and maintaining cost-effective systems to ensure they are achieved, and establishing and maintaining systems of governance, risk management and internal control. The core function of the Internal Audit Division is to help management carry out these responsibilities effectively and swiftly through assurance and consulting services.

This division reports directly to the Commissioner and has unrestricted access to the Chairperson of the Audit Committee.

Through increased capacity the effectiveness of the Internal Audit function has been enhanced during the period and quality of service improved through the formalisation of the work methods and training intervention.

Communication

Achievements

- Tax education campaign, organisation of countrywide Capital Gains Tax (CGT) road shows and printed advertisements
- Developed and published various educational materials
- Participation of senior staff in radio programmes
- Exhibitions at the following shows and trade fairs
 - Pretoria
 - East Rand
 - Pietersburg
 - Port Elizabeth

THE YEAR AHEAD

Since 1994, SARS has steadily increased its effectiveness as an entity concerned with the collection of taxes, duties and levies. During the coming year, there is further enhancement of the organisational capability on an enterprise-wide basis, underpinned by technology enablement and cultural transformation

SARS has made significant strides in the years following administrative autonomy, specifically in terms of enhancing processing efficiency and implementing a more focused compliance approach. More recently, the implementation of Siyakha in KZN heralded much-needed infrastructure and processing changes to the existing environment. Building on this platform, technology enablement and a strategic enterprise-wide approach will be employed to enhance SARS' change capability. The scope of transformation is clearly substantial, but critical in order to enhance the economic and social well-being of the South African nation.

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

- The speed of information transfer and the increasing pace of economic transactions
- The quality revolution and the need for greater accountability and value-adding regarding the use of government resources
- The time compression of business cycles
- The influence of interactivity, proliferation of the Internet and increased volume of business transactions in the market place resulting from a networked, globalised world
- The changing landscape of business following the recent accounting scandals and misrepresentation in financial reporting
- A renewed and changing focus on national security in the wake of the September 11, 2001 terrorist attacks on the US
- Regional integration of SADC, financial and trade liberalisation and the impact of New Partnership for Africa's Development (NEPAD)
- The power and effectiveness of human and business networks locally and internationally
- Adoption of mass service customisation and market segmentation philosophies
- A community approach to the way business, government and its citizens collaborate for a better and more effective and productive society

The SARS response to these dynamic drivers will depend largely on its ability to conceptualise the future and turn that vision into a reality through effecting strategic leadership and management approach. In addition, the organisational culture and learning environment will provide the organisation with the required flexibility to respond timeously and appropriately to the changing internal and external environment. A key component is the leveraging of scarce resources and core competence resulting from feasible integration of Customs and Tax administrations. As such, it will enable an integrated and unified view across taxpayers'/traders' affairs while still acknowledging the inherent peculiarities of each.

This approach dovetails with the next wave of SARS transformation that will see the strengthening of operational and strategic vehicles in an aligned way, supported by technology to herald in a new enterprise-wide performance and governance culture. Pivotal to the success of this phase will be the creation of adaptive legal, business and technology architectures and strategic leadership to support and drive the planned changes.

SARS will continue modernising and customising its services in order to provide a better service to the South African taxpaying population and trade community. In seeking to optimise the compliance landscape in South Africa, SARS interventions will reflect the optimal balance between encouraging compliance and enforcing compliance. In this regard, the legal, business and technology environment will facilitate the process of adequately and comprehensively addressing stakeholder needs and aspirations with due cognisance of the underlying compliance behaviour.

Total business solutions that provide SARS with a comparative advantage to deliver its mandate and strategic intent will provide the frame of reference. Value-added technology investments will deliver a key resource that will successfully position SARS as an 'electronic' administration. This will entail offering multi-channel interactions and migrating to a real-time transacting environment that significantly reduces the need for paper bureaucratic processes that actively supports the South African e-government gateway.

The creation of significant organisational capability and flexibility in a learning environment will suitably position SARS to leverage on technology and shape the South African compliance landscape in a positive way that will yield innumerable benefits in the future. This is in addition to merely providing and sustaining the revenue on an annual

SARS ADMINISTERED REVENUE

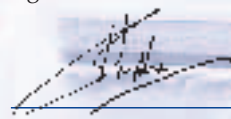
ANNUAL FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS OF THE SOUTH
AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE
for the year ended 31 MARCH 2002

CONTENTS

Report of independent auditors	44
Statement of financial position as at 31 March 2002	48
Statement of financial performance for the year ended 31 March 2002	49
Statement of change in net assets for the year ended 31 March 2002	50
Cash flow statement for the year ended 31 March 2002	51
Notes to the annual financial statements	52

The annual financial statements were approved and
signed on behalf of SARS' Executive Committee by:

	<u>6 August 2002</u>
P Gordhan	
Commissioner for SARS	Date

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

for the year ended 31 March 2002

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 48 to 56, for the year ended 31 March 2002, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

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

An audit includes:

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

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

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

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

3. QUALIFICATION

As a result of certain shortcomings in the internal control system in respect of revenue as set out below, it was not possible to fully satisfy myself with regard to the completeness, validity and accuracy of revenue.

3.1 Assurance process

- Tax returns are processed via an automated process based on information supplied by the taxpayer. The accuracy and validity of this process are impacted by inaccuracies in the information supplied. Since many of the qualitative assurance measures aimed at ensuring higher compliance and accuracy within the assessment process were only introduced subsequent to year-end, these could not be evaluated during the year under review.
- The major control ensuring that Pay-As-You-Earn (PAYE) deducted by employers is fully disclosed to, and received by, SARS is a performance of reconciliations of the IRP501 forms. Not all reconciliations had been performed for the year under review, however, steps had been taken to correct this.

Furthermore, I experienced difficulty in verifying the SARS audit process due to the lack of appropriate working papers.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE REPORT OF THE AUDITOR-GENERAL

3.2 Tax administration

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

3.3 Supporting documentation

The availability of tax records and source documentation was once again problematic at various branch offices, as selected documents or tax records included in the audit samples were not made available in time or at all. SARS has indicated that one of the reasons would be that many of these documents are used in various interactions with the relevant taxpayer and in functions that are performed.

3.4 Penalties and interest on Customs and Excise duties

At various Customs and Excise offices, penalties and interest charged on certain outstanding duties have been calculated incorrectly or not at all.

4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of SARS Administered Revenue at 31 March 2002 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice.

5. EMPHASIS OF MATTER

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

5.1 Matters affecting the financial statements

5.1.1 Operational receivables and payables

The financial statements were prepared on the cash basis of accounting. In terms of section 91(1)(b) of the PFMA, the Minister of Finance prescribed the standards of generally recognised accounting practice (GRAP), as set by the National Treasury, for the annual financial statements of SARS.

In terms of the requirements of GRAP as promulgated on 30 October 2001, the annual financial statements must, by means of figures and a descriptive report, explain any other matter and information material to the affairs of the public entity. While the operational receivables and payables of SARS are regarded as material, outstanding balances were not disclosed in the annual financial statements due to various structural limitations. The information on collection and debt management presented on pages 20 to 31 of the annual report is presented as additional information and was not audited and no opinion is expressed thereon.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE REPORT OF THE AUDITOR-GENERAL

5.2 Matters not affecting the financial statements

5.2.1 Tax evasion

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

5.2.2 Sureties

Guarantees and bonds are issued by financial institutions in favour of SARS for customs and excise duties payable. For some duties, the value of the bond to be held is prescribed. For other duties, the value of the bond has been determined based on operational needs and current or historic policies of SARS. For example, current SARS policy does not require surety in respect of the deferment of VAT. Sureties are not disclosed in the notes to the financial statements. Due to the material amounts involved SARS should holistically address the need for sureties as part of an overall credit risk management strategy.

5.2.3 Weaknesses in internal control - bank reconciliation

SARS has made significant progress in implementing proper reconciliation processes. In order to ensure that full benefit is derived from the reconciliation process, reconciling items should be cleared in a more timely manner. Some of the reconciling amounts on the bank reconciliation have been outstanding since 1998. One of the risks associated with long outstanding items is that funds could be misappropriated and the misappropriation might not be detected or corrected in time, negating the purpose of the bank reconciliation.

5.2.4 Computer audit

Computer audits were completed during the period September 2001 to February 2002 and recommendations were in each instance brought to the attention of the Commissioner. In his comments, the Commissioner referred to various corrective steps, the effectiveness of which will be evaluated in due course.

(i) General controls

The key findings arising from the follow-up audit of general controls within the Value-Added Tax, Pay-As-You-Earn and Income Tax systems indicated that although some controls were in place, adequate general control measures had not been implemented in the computer environment as a whole.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE REPORT OF THE AUDITOR-GENERAL

(ii) Application controls

The key findings arising from the follow-up audits of application controls within the Customs Automated Processing of Entries, Deferment and Passenger Systems indicated that some progress had been made in addressing the weaknesses identified during the previous audits. However, some additional weaknesses were also identified during the follow-up computer audits.

6. APPRECIATION

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



S.A. FAKIE
AUDITOR-GENERAL
Pretoria
29 August 2002

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF FINANCIAL POSITION as at 31 March

	Notes	2001/2002	2000/2001
		R'000	R'000
ASSETS			
Current assets			
Cash and cash equivalents	2	2,699	86,867
Other assets	3	22,179	18,490
Total Assets		<u>24,878</u>	<u>105,357</u>
 NET ASSETS AND LIABILITIES			
Net Assets			
Accumulated Administered Assets		(473,891)	(682,054)
Current liabilities			
Bank		497,519	784,101
Other liabilities	4	1,250	3,310
Total Net Liabilities		<u>24,878</u>	<u>105,357</u>

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March

	Notes	2001/2002 R'000	2000/2001 R'000
Taxation		251,926,469	219,664,706
Income Tax	5	147,310,360	126,145,239
Value-Added Tax/Sales Tax	6	61,056,609	54,455,193
Fuel levy		15,110,120	14,495,289
Excise duties		10,573,354	9,820,478
Customs duties		8,632,203	7,853,604
Other taxes	7	6,395,831	5,541,258
Skills Development Levy		2,717,255	1,257,432
Diesel refunds		(186,924)	-
Road accident fund (RAF)		2,070	-
Unemployment insurance fund (UIF)		65	-
Air Passenger Tax		296,395	85,780
Ordinary levy		18,671	10,387
Import surcharge		460	46
Non-taxation		4,599,274	4,950,153
Departmental receipts	8	4,510,775	4,329,888
Miscellaneous revenue	9	28,795	362,540
Mining leases and ownership		3,315	215,046
Provincial administration receipts	10	56,389	42,679
TOTAL REVENUE		256,525,743	224,614,859
Less:			
SOUTH AFRICAN CUSTOMS UNION AGREEMENT			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	11	8,204,820	8,396,058
NET REVENUE FOR THE YEAR		248,320,923	216,218,801

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF CHANGE IN NET ASSETS for the year ended 31 March

	Notes	R'000
ADMINISTERED ASSETS		
Restated balance at 31 March 2000		(258,195)
Net gains and losses not recognised in the statement of financial performance		(423,859)
Net revenue for the year		216,218,801
Transfer to the National Revenue Fund		(216,642,660)
Balance at 31 March 2001		(682,054)
Net gains and losses not recognised in the statement of financial performance		208,163
Net revenue for the year		248,320,923
Adjustment to Net Assets	12	(60,895)
Transfer to the National Revenue Fund		(248,051,865)
Balance at 31 March 2002		(473,891)

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
CASH FLOW STATEMENT for the year ended 31 March

	Notes	2001/2002 R'000	2000/2001 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from operating activities	13	256,459,099	224,678,225
Taxation		251,948,324	220,348,337
Non-taxation		4,510,775	4,329,888
Cash transferred		(256,256,685)	(225,038,718)
Payments in respect of Customs Union Agreement		(8,204,820)	(8,396,058)
Cash to National Revenue Fund		(248,051,865)	(216,642,660)
Net cash (transferred)/retained from operations		202,414	(360,493)
Cash and cash equivalents at beginning of period		(697,234)	(336,741)
Cash and cash equivalents at end of period	14	(494,820)	(697,234)

1 Accounting policies

1.1 Objectives

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

1.2 Basis of accounting

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

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

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

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

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

1.3 Revenue recognition

1.3.1 Definition of revenue

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

1.3.2 Recognition of revenue

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

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

1.4 Revenue not recognised - tax evasion

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

1.5 Cash and cash equivalents

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

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000
2. Cash and cash equivalents	2,699	86,867
Paymaster-General	-	82,641
Receiver of Revenue (cash on hand)	904	2,111
Main control account - Regional offices	1,795	2,115
3. Other assets	22,179	18,490
National Treasury	-	10,277
Eastern Cape Provincial Administration	7,950	-
Debtors Suspense	4,743	-
Postmaster-General	2,190	5,017
Postmaster-General (VAT)	7,286	2,394
Suspense	10	802
The Eastern Cape Provincial Administration debtor of R7 950 266 relates to provincial revenue which was overpaid to the Province during the 1999/2000 financial year. R6 942 959 of this amount was recovered from the Province on 17 May 2002. The debtor suspense of R4 743 497 relates to bank statement transactions which SARS believes should not have been debited against its account. The transactions are currently being resolved with the financial institution concerned.		
4. Other liabilities	1,250	3,310
State departments	2	40
Provision for write-offs	1,248	3,270
5. Income tax	147,310,360	126,145,239
Pay-As-You-Earn	84,278,392	79,373,793
Persons, individuals and companies	49,678,641	37,520,342
Tax on retirement fund industry	6,190,605	5,219,756
Secondary tax on companies	7,162,722	4,031,348
6. Value-Added Tax/Sales Tax	61,056,609	54,455,193
Value-Added Tax	61,055,682	54,454,905
Sales Tax	927	288
7. Other taxes	6,395,831	5,541,258
Transfer duties	2,912,987	2,401,894
Stamp duty	1,736,110	1,532,559
Marketable securities tax	1,212,825	1,102,149
Estate duty	481,851	442,696
Donations tax	20,608	32,091
Master fees	31,101	29,009
Levy on financial services	349	884
Non-resident shareholders tax	-	(24)

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002 R'000	2000/2001 R'000
8. Departmental receipts	4,510,775	4,329,888
Departmental activities	2,272,831	3,492,447
Interest and dividends	1,680,320	384,331
Rental of state property	224,671	142,892
Fines & forfeitures	162,757	113,807
Recovery of loans and advances	77,168	112,274
Levies	88,842	74,133
Sale of state owned land	4,186	10,004
Departmental activities include revenue received by SARS in respect of taxation and state departments which could not be allocated to specific revenue types and stale cheques which have been written back to revenue.		
9. Miscellaneous revenue	28,795	362,540
Customs and excise miscellaneous revenue	28,694	361,050
Revenue in respect of other departments	101	1,490
10. Provincial administration receipts	56,389	42,679
Provincial administration consolidated account	56,389	42,679
This figure 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.		
11. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	18,935,854	17,673,643
Botswana	200,168	219,957
Namibia	268,083	180,252
Lesotho	32,557	64,268
Swaziland	52,993	54,870
Sub-total	553,801	519,347
South Africa	18,382,053	17,154,296
Received from the Common Customs Pool	18,935,854	17,673,643
Botswana	2,622,444	2,986,361
Namibia	2,641,158	2,877,323
Swaziland	1,503,067	1,406,229
Lesotho	1,438,151	1,126,145
Sub-total	8,204,820	8,396,058
South Africa	10,731,034	9,277,585
12. Adjustment to net assets		
Adjustment to net assets	(60,895)	-

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002 R'000	2000/2001 R'000
Net revenue for the year	248,320,923	216,218,801
Adjusted for Payments in terms of Customs Union Agreement	8,204,820	8,396,058
Adjustment to net assets	(60,895)	-
(Increase) / Decrease in other assets	(3,689)	83,260
Increase / (Decrease) in other liabilities	(2,060)	(19,894)
Total cash received	256,459,099	224,678,225
14. Cash and cash equivalents	(494,820)	(697,234)
Cash and cash equivalents	2,699	86,867
Bank	(497,519)	(784,101)

15. Sureties

- (i) Lien - Sanlam shares
3 896 999 (4 379 631 - 2000-01) Sanlam shares with a market value of R28 954 703 (R40 391 504 - 2000-01) are held in respect of amounts owing by 5 582 (6 063 - 2000-01) taxpayers at 31 March 2002.
- (ii) Lien - Old Mutual shares
1 092 200 (4 522 400 - 2000-01) Old Mutual shares with a market value of R17 813 782 (R75 750 200 - 2000-01) are held in respect of amounts owing by 2 642 (6 604 - 2000-01) taxpayers at 31 March 2002.

16. Theft and losses

Section 12(2) of the Public Finance Management Act does not make provision for the administration of theft and losses in respect of administered revenue. Theft and losses can therefore not be recovered by administered revenue. Theft and losses are managed by own accounts. An amount of R13 368 053 (R3 047 564 - 2000-01) are in respect of theft and losses for administered revenue.

17. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes to the amount of R694 654 696 (R466 181 292 - 2000-01) has been written off on or prior to 31 March 2002. Amounts still awaiting approval for write-off do not form part of actual write-offs.

18. Audit fees

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

19. Bank

Bank comprises cheques issued but not yet presented for payment amounting to R558 371 835 with the remaining balance of R60 852 835 relating to other reconciling items.

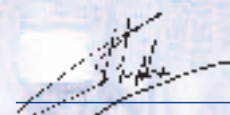
SARS OWN ACCOUNTS

ANNUAL FINANCIAL STATEMENTS THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS for the year ended 31 MARCH 2002

CONTENTS

Report of independent auditors	58
Balance sheet	60
Income statement	61
Statement of changes in capital and reserves	62
Cash flow statement	63
Notes to the annual financial statements	64

The annual financial statements were approved and signed on behalf of SARS Executive Committee by:



P Gordhan
Commissioner for SARS

30 May 2002

Date

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS for the year ended 31 March 2002

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 60 to 72, for the year ended 31 March 2002, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

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

An audit includes:

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

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

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

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of SARS Own Accounts at 31 March 2002 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

4. EMPHASIS OF MATTER

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

4.1 Matters not affecting the financial statements

4.1.1 Weaknesses in internal control

(i) Human Resources

Service bonus back pay/arrear payments

In the previous financial year's audit report, it was reported that there were discrepancies relating to the payments made to SARS employees in respect of the Hay grading system. These payments incorporated both basic salary and service bonus back pay elements.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS

In line with the SARS' Management decision to resolve these discrepancies in two stages, basic salary adjustments were successfully resolved in the year under review. Back pay relating to the service bonus will be attended to in the 2002-2003 financial year. An amount of R50 million has been provided for this purpose.

(ii) Assets

During the previous financial year, SARS implemented a system to register and control fixed assets. A third party is presently engaged to carry out audits to verify all assets. This exercise should be completed towards the end of September 2002.

At the time of this audit it was found that the asset register was not in all instances updated with the physical movement of assets. One of the main reasons for this is that the current asset policy does not cater for large scale movement of assets, for example those resulting from the transformation activities of SARS. The Commissioner has advised that SARS will put policies in place to address this matter.

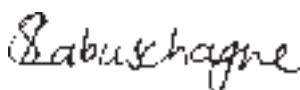
4.1.2 Computer Audit

Computer audits on the Human Resource and Salary (HR) and General Ledger (GL) systems were carried out during the year under review and recommendations were in each instance brought to the attention of the Commissioner. At the time of compiling this report the comments of the Commissioner were not due yet, but management indicated that various corrective steps had been taken to address the control weaknesses, of which the effectiveness will be evaluated in due course.

The key findings arising from the audit indicated that although controls were in place in the general control environment, control weaknesses existed in some areas. For example, change control standards and procedures with regard to the HR system and users account management procedures were not completely formally documented. Control over the activities of the database administrators was inadequate to prevent and detect unauthorised access to both systems. Furthermore, the Windows 2000 security parameter settings and the password and logical access controls were not optimally utilised to prevent unauthorised access.

5. APPRECIATION

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



S. LABUSCHAGNE
ON BEHALF OF THE AUDITOR-GENERAL
Pretoria
30 August 2002

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
BALANCE SHEET as at 31 March 2002

	Notes	2001/2002	2000/2001
		R'000	R'000
ASSETS			
Non-current assets		206,818	148,279
Property, plant and equipment	8	179,530	113,367
Intangible assets	9	27,288	34,912
Current assets		728,121	522,456
Accounts receivable	10	89,701	46,446
Cash and cash equivalents	17	638,420	476,010
Total assets		934,939	670,735
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		672,392	377,790
Asset revaluation reserve		48,302	48,302
Capital reserve on establishment		32,364	32,364
Accumulated surplus		591,726	297,124
Current liabilities		262,547	292,945
Trade and other payables	11	204,869	253,573
Provisions	12	57,678	39,372
Total capital, reserves and liabilities		934,939	670,735

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
INCOME STATEMENT for the year ended 31 March 2002

	Notes	2001/2002 R'000	2000/2001 R'000
REVENUE		2,627,227	2,155,208
Grant received	3	2,511,562	2,071,892
Donations		3,531	15,517
Interest received		61,321	23,950
Other revenue		50,813	43,849
EXPENSES		2,332,625	1,922,542
Administrative expenditure		411,365	353,280
Depreciation	8	52,005	112,934
Charge for the year		52,044	102,877
(Over) / Underprovision - prior periods		(39)	10,057
Amortisation		18,103	16,403
Finance charges		44	2,830
Miscellaneous expenditure		12,596	2,891
Personnel expenditure		1,455,283	1,129,966
Professional and special services	4	383,229	304,238
Net surplus for the year		294,602	232,666

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

STATEMENT OF CHANGES IN CAPITAL AND RESERVES for the year ended 31 March 2002

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus (deficit) R'000	Total R'000
Balance at 31 March 2001	48,302	32,364	297,124	377,790
Net surplus for the year	-	-	294,602	294,602
Balance at 31 March 2002	<u>48,302</u>	<u>32,364</u>	<u>591,726</u>	<u>672,392</u>

1. BACKGROUND

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

2. STATEMENT OF ACCOUNTING POLICIES

2.1 Presentation of annual financial statements

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

2.2 Revenue recognition

SARS' chief source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenues. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for when they accrue. Uncommitted funds are surrendered to the National Revenue Fund in terms of section 27 of the Act. Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable.

2.3 Donations

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

2.4 Retirement benefit plans

Current contributions on behalf of employees to the Government Employees Pension Fund, which is a defined benefit plan, are expensed. No provision is made for pension-related post-retirement benefits for employees as this is the responsibility of Government. Refer to note 15 for details regarding the actuarial valuation method used to determine the fund's financial health.

2.5 Property, plant and equipment

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

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The assets were valued on the following basis:

- 2.5.1.1 Motor vehicles were valued at the trade value of each vehicle per the Auto Dealers' Guide for March 2000.
- 2.5.1.2 Furniture and fittings and office equipment were counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive data-base maintained by the consultants responsible for the asset project, who are specialists in this field.
- 2.5.1.3 Computer equipment was counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive data-base maintained by the consultants responsible for the asset project, who are specialists in this field.
- 2.5.2 Depreciation is provided on all property, plant and equipment to write down the cost or valuation less estimated residual value by equal instalments over their economic lives as follows:

Cabling infrastructure	5 years
Computers (main frame)	5 years
Computers (personal and printers)	3 years
Furniture and fittings	6 years
Garden equipment	3 years
Kitchen equipment	6 years
Laboratory equipment	5 years
Office equipment	5 years
Prefabricated buildings	5 years
Security equipment	5 years
Software (main frame)	
Purchased	3 years
In house developed	3 years
Software (personal computers)	3 years
Vehicles	5 years

2.6 Intangible assets

Expenditure on in-house developed software is charged to income in the year in which it is incurred, except where a clearly defined project is undertaken and it meets the criteria set out in AC 129, Intangible Assets. Such development costs are capitalised as an intangible asset and amortised on a straight line basis over the life of the project from the date of commencement of operation, which is on average 3 years. Costs directly associated with the project are capitalised.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000
2.7 Financial assets and liabilities		
Financial assets		
SARS principal financial assets are cash and cash equivalents, which comprise bank balances and cash on hand, and receivables. Receivables are stated at their nominal value as reduced by appropriate provisions for estimated irrecoverable amounts.		
Financial liabilities		
Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include trade and other payables. Trade and other payables are stated at their nominal value.		
3. GRANT RECEIVED		
Government grant received	2,511,562	2,128,170
Reversal of accrual made in 2000 in respect of incentive bonuses	-	(56,278)
	<u>2,511,562</u>	<u>2,071,892</u>
4. PROFESSIONAL AND SPECIAL SERVICES	<u>383,229</u>	<u>304,238</u>
Included in the above are Audit Fees for services provided by the Auditor-General of -	<u>15,947</u>	<u>21,739</u>
5. IRREGULAR EXPENDITURE		
The following amounts, included in the annual financial statements, constitute irregular expenditure:		
a) Purchase of television set & video machine	3	-
b) Additional software purchased on contract	-	12
c) Production of video tapes - Rand Easter Show	-	40
d) Appointment of temporary secretary	-	130
e) Purchase of hard disk	-	55
f) Rental of photocopier	-	7
g) Purchase of software - Timeline	-	80
h) Rental of house as Official Quarters	-	4
i) Appointment of training manager - MSL World-Wide	-	35
j) Supply, installation and maintenance of PBX	-	556
	<u>3</u>	<u>919</u>

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

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000
6. DONATIONS		
SARS received the following donations:		
a) USAID - United States Agency for International Development		
Technical assistance & training funded received from:		
- US Treasury and Internal Revenue personnel		
- Nathan Associates		
- Educational Opportunities Council (EOC)		
b) Sida - Swedish International Development Agency		
Short-term advisors, technical assistance and training		
Study visits		
Residential and non-residential training		
c) AusAID - Australian Agency for International Development		200
Short term advisors providing technical assistance in the following areas:		
- tax anti-avoidance legislation		
- establishing a procurement policy framework		
- implementation of the procurement policy framework		
d) DFID - UK Department for International Development	13,172	
Technical assistance and training on various Siyakha - Customs initiatives		
e) DSE - German Foundation for International Development	-	
Training on audit technique and transfer pricing		
	<u>22,847</u>	<u></u>

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

7. TAX STATUS

SARS is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act, 1962. SARS is a registered VAT vendor and pays output VAT on grants received, less input VAT on related expenditure.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 March 2002

8. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Computer software	Furniture fittings & office equipment	Security equipment	Motor vehicles	Total
	R'000	R'000	R'000	R'000	R'000	R'000
For the year ended 31 March 2002						
At cost or valuation						
Opening balance - 31 March 2001	286,769	4,515	77,710	1,356	45,072	415,422
Adjustment	(956)	(609)	2,450	3	(903)	(15)
Additions	50,084	26,748	24,843	6,437	10,623	118,735
Disposals	-	-	-	-	(3,625)	(3,625)
Closing balance - 31 March 2002	335,897	30,654	105,003	7,796	51,167	530,517
Accumulated depreciation						
Opening balance - 31 March 2001	237,148	251	38,516	191	25,949	302,055
Adjustment	(171)	-	-	-	-	(171)
Charge for the year	24,483	2,872	14,830	613	9,207	52,005
Disposals	-	-	-	-	(2,902)	(2,902)
Closing balance - 31 March 2002	261,460	3,123	53,346	804	32,254	350,987
Carrying amount - 31 March 2002	74,437	27,531	51,657	6,992	18,913	179,530
For the year ended 31 March 2001						
At cost or valuation						
Opening balance - 31 March 2000	235,202	27,852	34,239	988	27,869	326,150
Revaluation	25,211	(27,914)	39,691	(828)	15,073	51,233
Additions	26,356	4,577	3,780	1,196	2,130	38,039
Closing balance - 31 March 2001	286,769	4,515	77,710	1,356	45,072	415,422
Accumulated depreciation						
Opening balance - 31 March 2000	105,098	15,485	7,200	113	9,992	137,888
Revaluation	51,643	(15,485)	17,973	(49)	7,208	61,290
Charge for the year	80,407	251	13,343	127	8,749	102,877
Closing balance - 31 March 2001	237,148	251	38,516	191	25,949	302,055
Carrying amount - 31 March 2001	49,621	4,264	39,194	1,165	19,123	113,367

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

The adjustments made to the cost price were to reallocate assets between categories which were incorrectly disclosed at 31 March 2001. The adjustment made to the accumulated depreciation was to rectify a misallocation at 31 March 2001.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

	Computer software	Total
	R'000	R'000
For the year ended 31 March 2002		
At cost or valuation		
Opening balance - 31 March 2001	56,483	56,483
Additions	11,404	11,404
Scrapping	(925)	(925)
Closing balance - 31 March 2002	66,962	66,962
Accumulated amortisation		
Opening balance - 31 March 2001	21,571	21,571
Charge for the year	18,103	18,103
Closing balance - 31 March 2002	39,674	39,674
Carrying amount - 31 March 2002	27,288	27,288
For the year ended 31 March 2001		
At cost or valuation		
Costs expensed previous years, now capitalised	46,514	46,514
Additions	9,969	9,969
Closing balance - 31 March 2001	56,483	56,483
Accumulated amortisation		
Accumulated amortisation charge for previous years	5,168	5,168
Charge for the year	16,403	16,403
Closing balance - 31 March 2001	21,571	21,571
Carrying amount - 31 March 2001	34,912	34,912

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000
10. ACCOUNTS RECEIVABLE		
Staff accounts receivable	7,419	9,378
Less: provision for doubtful debts	2,206	3,166
	<u>5,213</u>	<u>6,212</u>
Government departments	24,663	39,161
Refundable deposits	318	329
Other receivables	10,212	744
Prepayments	49,295	-
	<u>89,701</u>	<u>46,446</u>

11. TRADE AND OTHER PAYABLES

Trade accounts payable	12,868	65,730
Accruals for salary related expenses	72,893	84,062
Other accruals	93,014	49,924
Other payables	133	2,370
Project advances	24,064	26,773
VAT payable	1,897	24,714
	<u>204,869</u>	<u>253,573</u>

12. PROVISIONS

	Incentive Bonus	Leave Pay	Total
At 31 March 2001	<u>22,050</u>	<u>17,322</u>	<u>39,372</u>
Additional provisions	35,180	5,176	40,356
Charged to income statement	(22,050)	-	(22,050)
At 31 March 2002	<u>35,180</u>	<u>22,498</u>	<u>57,678</u>

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000

13. CONTINGENT LIABILITIES

Guarantees issued to various financial institutions in respect of housing loans

Accumulated leave prior to 31 December 1999

The contingent amount for accumulated leave pertains to the period 1999/2000 when there was no limitation on the number of leave days that could be accumulated. Leave is only payable in the event of employees retiring or leaving service due to death in service. As from 1 January 1999, limitations have been placed on the amount of leave that can be accumulated. Provision for such accumulated leave has been made in the financial statements for 1999/2000.

14. CAPITAL COMMITMENTS

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

15. RETIREMENT BENEFIT PLANS

Retirement benefits are provided by membership of the Government Employees Pension Fund, a defined benefit fund. SARS' responsibility regarding the funding of the shortfall of the pension fund is to the current contributions made to the pension fund on behalf of its employees. As at 31 March 1998, the entire fund is subject to an actuarial valuation once every three years. NBC Employee Benefits (Pty) Ltd were commissioned by the Minister of Finance, in the interim Board of Trustees, to perform an actuarial valuation of the fund as at 31 March 1998. A valuation of the fund for 31 March 2001 has been commissioned, and will be complete within the next few months.

The results, as per the actuarial valuation at 31 March 1998, were as follows:

Fair value of planned assets

Funding level 96,5%

Including pension increments

Shortfall

Including pension increments

Actuarial present value of planned assets

1,1 billion

143,8 billion

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2001/2002	2000/2001
	R'000	R'000
Actuarial assumptions:		
1) Reasonable demographic assumptions regarding resignation, mortality, ill-health and retirement.		
2) Financial assumptions regarding future salary increases until retirement, and pension increases after retirement; namely,		
i) A long-term rate of 10% per annum		
ii) A long-term salary inflation rate of 11% per annum. This is in addition to a promotional scale		
iii) Pension increases are provided for at a rate of 7,5% per annum		
iv) Rate of interest of 14% per annum to discount the assets and liabilities.		
The financial health of the Fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.		
Pension fund contributions (included in personnel expenditure)	<u>103,109</u>	<u>102,068</u>

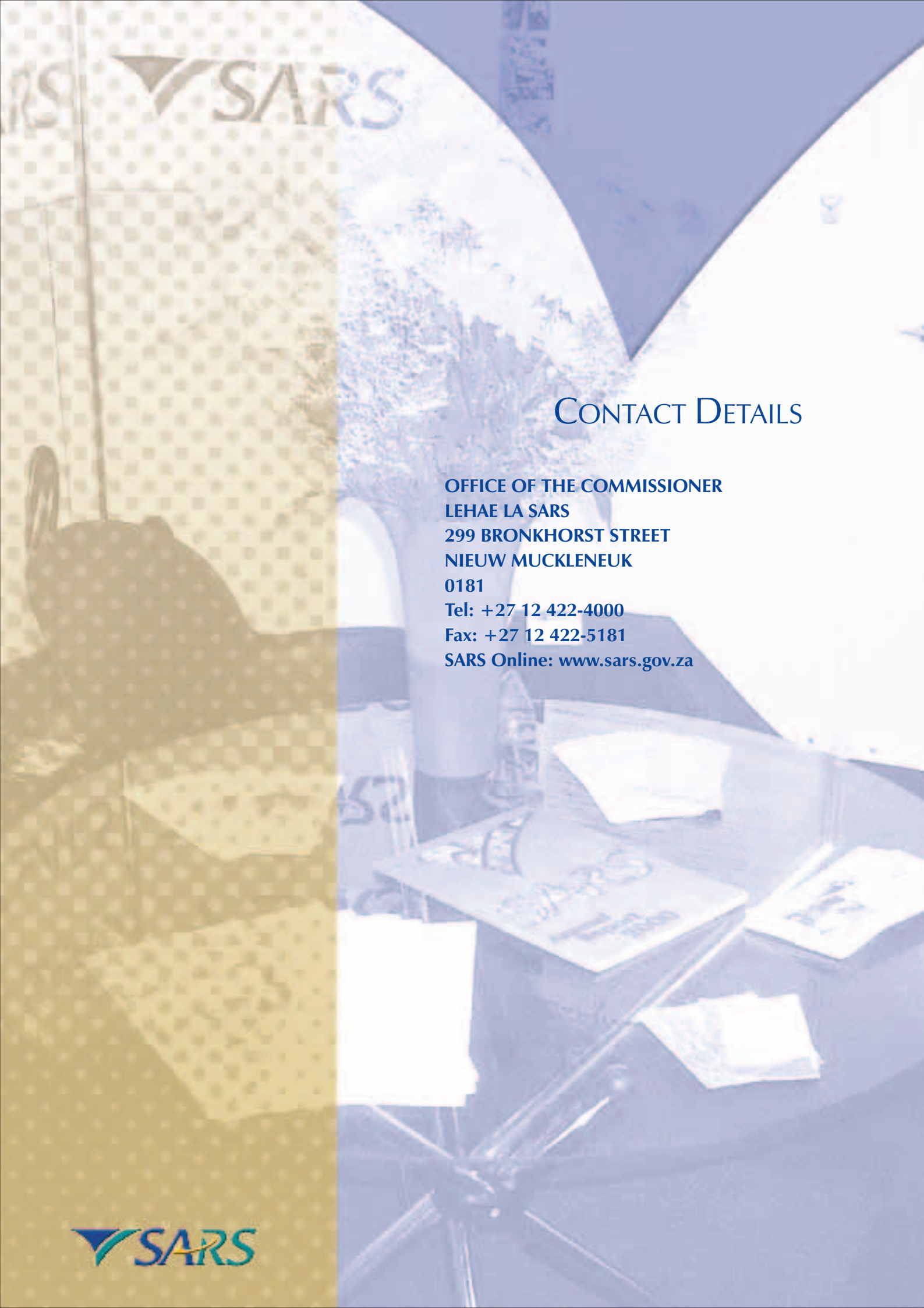
Approximately 10 092 of the 10 991 SARS employees contribute to this pension fund.

16. POST-RETIREMENT MEDICAL BENEFITS

For the purpose of post-retirement benefits, SARS falls under the Public Service Act. According to the Act, the State will continue to contribute to medical aid payments of employees after retirement if certain criteria are met. SARS as an autonomous entity, has no obligation to pay post-retirement medical benefits to its retired employees or contribute to their continuance of membership of any medical aid.

17. CASH AND CASH EQUIVALENTS

Bank balances	638,994	475,768
Bank overdrafts	(848)	(16)
Cash on hand	274	258
	<u>638,420</u>	<u>476,010</u>



CONTACT DETAILS

**OFFICE OF THE COMMISSIONER
LEHAE LA SARS
299 BRONKHORST STREET
NIEUW MUCKLENEUK
0181
Tel: +27 12 422-4000
Fax: +27 12 422-5181
SARS Online: www.sars.gov.za**

The SARS logo features a stylized 'V' shape composed of two overlapping curved lines, one blue and one teal. To the right of this symbol, the letters 'SARS' are written in a blue, serif font. A thin, yellow, curved line loops around the 'A' and 'R'.