










## CONTENTS

---








SARS MANDATE, VISION, MISSION & STRATEGIC GOALS	1
COMMISSIONER'S REVIEW	4
KEY ACHIEVEMENTS	6
CHAIRPERSON'S REPORT	8
SARS EXECUTIVE COMMITTEE	10
SARS ADVISORY BOARD	11
SARS ENVIRONMENT	12
SARS TRANSFORMATION	16
OVERVIEW OF SARS MAIN BUSINESS LINES AND ACHIEVEMENTS	22
SARS SUPPORT SERVICES	56
THE YEAR AHEAD	66
REPORT OF THE COMMISSIONER ON THE FINANCIAL STATEMENTS	69
FINANCIAL STATEMENTS - ADMINISTERED REVENUE	73
REPORT OF THE AUDITOR-GENERAL	74
ADMINISTERED REVENUE	79
FINANCIAL STATEMENTS - OWN ACCOUNTS	90
REPORT OF THE AUDITOR-GENERAL	91
OWN ACCOUNTS	95
CONTACT DETAILS	109





## CONTENTS

---



SARS MANDATE, VISION, MISSION & STRATEGIC GOALS	1
COMMISSIONER'S REVIEW	4
KEY ACHIEVEMENTS	6
CHAIRPERSON'S REPORT	8
SARS EXECUTIVE COMMITTEE	10
SARS ADVISORY BOARD	11
SARS ENVIRONMENT	12
SARS TRANSFORMATION	16
OVERVIEW OF SARS MAIN BUSINESS LINES AND ACHIEVEMENTS	22
SARS SUPPORT SERVICES	56
THE YEAR AHEAD	66
REPORT OF THE COMMISSIONER ON THE FINANCIAL STATEMENTS	69
FINANCIAL STATEMENTS - ADMINISTERED REVENUE	73
REPORT OF THE AUDITOR-GENERAL	74
ADMINISTERED REVENUE	79
FINANCIAL STATEMENTS - OWN ACCOUNTS	90
REPORT OF THE AUDITOR-GENERAL	91
OWN ACCOUNTS	95
CONTACT DETAILS	109

## MANDATE, VISION, MISSION & STRATEGIC GOALS

---



### MANDATE

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

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

1

### VISION

To provide an excellent service in a transparent environment ensuring optimum collection of revenues

### MISSION

SARS is an organisation that achieves:

- An optimisation of revenue yield
- Compliance with the law
- High standard of a client service that is equitable, transparent and related to the needs of clients
- Cost efficiency
- Public protection in accordance with Government policy
- Provision of reliable statistics and
- Advice to Government on tax matters

## MANDATE, VISION, MISSION & STRATEGIC GOALS



*Advise government on tax matters*

Our achievements are all recognised by stakeholders through an organisation that is:

- Focused
- Dynamic
- Appropriately empowered
- Appropriately decentralised
- Well integrated through a process orientation
- Flexible
- Accountable
- Performance orientated towards goals, objectives and strategic direction
- Supported by appropriate processes, policies, plans and resources.

By staff who are:

- Proud
- Motivated
- Skilled and professional
- Subject to equal opportunities

### STRATEGIC GOALS

In order to perform/execute SARS's mandate the following strategic outcomes have been identified for SARS:

- Implementing Government's new tax policies and exceeding the revenue collection targets
- Improved service delivery
- Fostering tax compliance and morality
- Protecting the South African economy
- Facilitating trade
- Promoting Southern African integration and co-operation and
- Ensuring organisational transformation

## STRATEGIC OBJECTIVES AND VALUES



*Protecting the South African economy*

### Our strategic objectives for 2000/2001

- 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 strategy for achieving these objectives

Our strategy has four elements:

- Optimising revenue
- Rendering a world-class customs service
- Ensuring maximum compliance
- Providing a professional support service

## VALUES

Our services, our business processes and our conduct are based on:

- Certainty and consistency
- Equity and fairness
- Simplicity
- Integrity
- Transparency



## COMMISSIONER'S REVIEW

---

*It is with some pride that we could deliver to the Minister of Finance and the President of South Africa an amount of R7,4 billion above the original target of R212,2 billion. The results indicate a renewed focus on fighting crime and marshalling South Africans to new levels of tax and customs compliance.*

4



Pravin Gordhan

The past year has been the most challenging in SARS's history. Not only was a formidable revenue target set, but in February 2000 the Minister of Finance announced the most radical tax policy changes in South Africa's history. At the same time we embarked on an ambitious programme to re-engineer and restructure SARS. Internally, employees had to adapt to a new grading and remuneration system and a flatter organisational structure, which was a significant departure from the public service legacy – without losing focus on collecting billions of Rands and protecting our economy. It has been a tremendous privilege to lead the highly motivated women and men who rose admirably to these challenges and surpassed even their own expectations by year-end.

The revenue we collect is the best known of our performance indicators. It is therefore with some pride that we could deliver to the Minister of Finance, and the President of South Africa, a sum of R219,6 billion as opposed to an original target of R212,2 billion and a revised target of R215,5 billion. The total surplus collected on original estimates from 1995/6 to 2000/01 amounts to R35,7 billion.



Our less visible work is as important. The SARS Customs demonstrated its ability at very short notice to give effect to the most important development in South African trade policy: The EU, SADC and AGOA arm of our work also impacts very significantly on our economy.

The fight against crime in South Africa took a significant step forward through SARS's two-pronged efforts, which focused on both internal as well as external elements. Externally, the most prominent was the clampdown on the retail trade – specifically in the electronics industry. SARS auditors, investigators and prosecutors set a new threshold in the Government's endeavour to marshal South Africans to new levels of tax and customs compliance. With the involvement of the South African Police Service and the NDPP eight people have already been criminally charged and nineteen SARS staff members are currently under investigation for corruption. Twenty-seven convictions were achieved with direct imprisonment totalling 121 years.

Internally we have clearly demonstrated SARS's stern resolve against corruption. A robust approach to misconduct saw 88 employees being dismissed in 2000/2001. On the other hand, employees who demonstrated integrity were acknowledged and rewarded.

In the year ahead, we will launch a pro-integrity campaign that encompasses investigation of corruption, improved controls and reinforcement of SARS values and code of conduct.

With our partners in the National Treasury we have begun to make a significantly positive impact on the achievement of some of the Government's macro economic goals: continued reduction in the budget deficit, the lessening of pressure on interest rates and greater revenue available for expenditure on social services and infrastructure. But, perhaps more significantly, in the past three years the Government has been able to redistribute about R18,4 billion in the form of tax relief to individuals.

During the past year we have endeavoured to strengthen our co-operation with thorough assistance to customs and tax administrations both in SADC countries and Africa as a whole.

The challenge facing SARS is to enhance the level of compliance and at the same time deliver good service. We acknowledge that the progress in improving service delivery has not met some expectations. This will therefore be a key focus of attention during the year ahead and already the special efforts to clear the backlogs have paid off.

SARS realises the importance of building alliances with key partners and would like to express its gratitude to the following organisations: NDPP, SAPS, NIA, SASS, SACOP; to unions recognised by SARS – NEHAWU and the PSA; various foreign customs and tax administrations in Sweden, USA, UK, Australia, Germany; international aid agencies such as DFID and SIDA; organised business: SACOB and NAFCOG; and professional associations: SAICA, CFA, etc.

SARS would also like to extend its heartfelt thanks to the Minister and Deputy Minister of Finance for their leadership, support and encouragement.

But the biggest 'thank you' goes to SARS's 12 000 employees and the millions of patriotic and compliant taxpayers who earnestly contribute to building the new South Africa.



PRAVIN GORDHAN

*Commissioner for the South African Revenue Service*



## KEY ACHIEVEMENTS

### REVENUE

SARS exceeded the printed revenue target of R212,2 billion by R7,4 billion, as well as the revised estimate of R215,5 billion by an additional R4,1 billion in revenue for the year ended 31 March 2001.

### COMPLIANCE

- Risk-based inspections at border posts have now been instituted.
- SARS became aware of serious tax and duty evasion within the electronics industry, perpetrated by means of under-evaluation, double invoicing, bribery and corruption of SARS officials. SARS engaged the main role-players in that sector of the industry. The purpose was to obtain their co-operation so that self-auditing could be agreed upon and attained. This allowed for a shorter investigation period and a more efficient use of SARS's resources. Another noteworthy aspect of this investigation was that it involved all operational divisions within SARS and also the SAPS and the NDPP. A total of R200 million in assessments was raised. Criminal charges have been laid against eight people.
- The Constitutional Court upheld the prevailing right of SARS to collect outstanding tax while dispute resolution mechanisms were underway.

### SPECIAL CUSTOMS ENFORCEMENT ACTIONS

Drug seizures to the value of R1,241 billion were made at various Customs entry points. The South African Police Services and the Special Operations Division of the NDPP provided crucial assistance.

### OPERATIONAL POLICY CHANGES

- A formal process to appeal against penalties or any other Customs practice has been established. This enhances the facilitation of legitimate trade and ensures higher levels of compliance.
- Improved controls of Duty Credit Certificates detected fraud of R12, 5 million.
- The following trade protocol agreements were implemented:
  - The SADC Protocol on trade;
  - SA-EU Free Trade Agreement; and
  - Africa Growth and Opportunity Act
- A passenger risk profiling system was developed. The use of pre-arrival information has led to greater travel facilitation and higher detection of Customs violations.

## LEGISLATION

- The Taxation Laws Amendment Act 2000 amended various taxation Acts, but principally provided for the taxation of foreign dividends and introduced provisions relating to public benefit organisations.
- The main feature of the Revenue Laws Amendment Act 2000 was the change to a residence basis of taxing income.

## TECHNOLOGY

- The process on e-filing has been initiated and five vendors have been appointed.
- The New Income Tax System (NITS) was taken over by the Technology Services Division from the external contractor under a mutually beneficial agreement. The system was stabilised.

## FINANCE

- SARS Own Accounts: Strong expenditure and cash resources controls have been enforced throughout the financial year. Formal accounting policies and procedures were implemented in December 2000. A fixed assets register was implemented in February 2001. Supplier and general ledger control accounts are reconciled monthly. There is full compliance with GAAP.
- SARS Administered Revenue: A balancing unit has been implemented to ensure regular reconciliation of net cash received between the accounting records and the core tax systems. Significant progress has been made in terms of developing the proposal of accounting on a cash basis at 31 March 2001 and progressively complying with GAAP in terms of a migration plan.
- PFMA: An implementation plan that was completed by August 2000 is being actioned to facilitate ultimate compliance by 1 April 2003.

## PEOPLE

- The Customs division has been reorganised into teams ensuring end-to-end accountability. SARS's low tolerance to dishonesty, coupled with a robust response to misconduct, has resulted in 88 dismissals (compared with 44 the previous year and 28 in 1998/1999).
- A competency modelling approach was used to develop career ladders for more than 8 500 members of staff in the following divisions: audit, customs, special investigations, collections and accounts maintenance, revenue administration, and law administration.
- The review of the grading system was successfully completed.
- Of the 308 employees hired in 2000/2001, 81 percent were Black and 46 percent were women. During the same period, the percentage of female staff remained constant at 68 percent. However, the percentage of women in management positions doubled, reaching 24 percent.

## SERVICE IMPROVEMENT

- SARS service desks were set up in all the larger Customs offices and in some of the larger revenue offices.
- Backlogs in the processing of tax returns were dramatically reduced from 850 584 to 230 000 by the financial year-end.

## CHAIRPERSON'S REPORT

---

*SARS has throughout the past year acted as a cost-effective professional body providing high levels of service, while optimising revenue yield.*

8



M M Corbett

It gives me great pleasure to contribute a message to the South African Revenue Service's (SARS) Annual Report 2000/2001 on behalf of the SARS Advisory Board. I am happy to note that the year under review has been characterised by hard work and outstanding achievement.

Of particular significance is the fact that SARS has, once again, substantially exceeded the revenue targets set. It has collected revenue in the sum of R7,4 billion in excess of the originally estimated R212,2 billion. This is an improvement even on the figures for the previous financial year. This growth in revenue has had a highly beneficial effect on the national economy. This, in turn, emphasises the importance of the plans which SARS has to improve its performance even further in the coming years. We, the members of the Advisory Board, warmly congratulate the Commissioner and the staff of SARS on another year of great achievement.

But exceeding the target is not the only achievement by SARS. There have been a number of constructive and positive developments in the past year, of which the following are but a few:

- Two Acts giving effect to tax policy proposals announced by the Minister of Finance during his 2000 budget review were promulgated and became law;
- SARS worked hard on the eradication of smuggling and enforced control on the importation and exportation of, prohibited and restricted goods;
- SARS worked towards fighting internal fraud and corruption, with positive results; and
- The implementation of the new income tax system (NITS) set a precedent for the introduction of a new electronic service allowing clients to register directly on the Internet with SARS.

As a result SARS has throughout the past year acted as a cost-effective professional body providing high levels of service, while optimising revenue yield.

Finally, on behalf of the Advisory Board, I wish once again to thank the Commissioner and the staff of SARS for their most helpful co-operation throughout the year.

Regretfully, and for personal reasons, I resigned from the Advisory Board with effect from the end of the 2000/2001 financial year.

I would accordingly like to take this opportunity to thank my colleagues on the Advisory Board, the Minister of Finance, the Deputy Minister of Finance, the Commissioner and the Executive Committee of SARS for their unremitting support and assistance during my period of office.

M M CORBETT

*Chairperson*

*SARS Advisory Board*



*SARS worked hard on enforcing import and export control on prohibited and restricted goods*



## SARS EXECUTIVE COMMITTEE

10



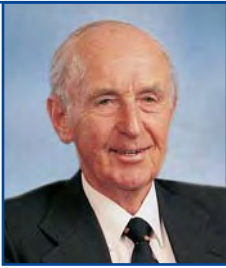
**STANDING FROM LEFT TO RIGHT:**

*Ivan Pillay: General Manager - Compliance, Gerhard Keyter: General Manager - Technology Service, Gege Kekana: General Manager - Communications, Prakash Mangrey: General Manager - Finance, Mfundo Nkublu: General Manager - Office of the Commissioner, Andrew Fisher: General Manager - Revenue Analysis, Edward Musbanganyisi: General Manager - Internal Audit*

**SITTING FROM LEFT TO RIGHT:**

*Bhabbalazi Bulunga: General Manager - Siyakba, Thinus Marx: General Manager - Revenue Operations, Kosie Louw: General Manager - Law Administration, Judy Parfitt: General Manager - Human Resources, Pravin Gordhan: Commissioner for SARS, Vuso Shabalala: General Manager - Customs Operations*

## SARS ADVISORY BOARD



**MR JUSTICE MM CORBETT**

*Chairperson of SARS  
Advisory Board.  
Former Chief Justice  
of the RSA.*



**MR SIZWE ERROL NXASANA**

*Deputy Chairperson  
and Chairman of the  
Audit Committee.  
CEO of Telkom SA.*



**PROF ANTHONY ASHER**

*Serves on the Audit Committee.  
Professor and Director of  
Actuarial Studies: University  
of the Witwatersrand.*

11



**PROF DILIP GARACH**

*Serves on the Transformation  
Committee. Chartered  
accountant and tax  
specialist.*



**MR WILLIAM MACFARLANE**

*Member of Audit Committee.  
Former Group Deputy  
Chairman - South African  
Breweries.*



**MR PRAVIN GORDHAN**

*Commissioner for the SARS  
and serves on the  
Transformation Committee.*



**MR ERIC MAFUNA**

*Chairman of the  
Transformation Committee.  
Managing Director and  
Senior Consultant,  
Africa Now (Pty) Ltd.*



**MS DOLLY DOREEN MOKGATLE**

*Executive Director:  
Transmission Eskom  
and member of the  
Transformation Committee.*



**MS TRUIDA PREKEL**

*Management Consultant,  
Truida Prekel Consultants  
and member of the  
Transformation Committee.*



## SARS ENVIRONMENT

---

*SARS operates in a dynamic and changing environment. It is therefore driven by imperatives designed to better place the organisation in a position to effectively implement Government policies and programmes.*

12



*Low inflation and a competitive real exchange rate supported the growth of exports*

### OVERVIEW

The introduction of far-reaching tax reforms and the increased integration of the national economy into the international trading system have dramatically changed the landscape in which the organisation operates.

During the year 2000, SARS implemented significant reforms in revenue collection and customs administration. In part, this was to deal effectively with weaknesses and operational inefficiency in the organisation. More importantly, it was to better place the organisation in a position to implement effectively policies and programmes introduced by the Government, specifically the National Treasury and the Department of Trade and Industry.

The reforms were driven by the need to modernise the organisation taking account of a rapidly changing economic and policy environment, both internationally and domestically. Although there is still a great deal to be done, solid and measurable progress has been achieved.

## THE ECONOMY

The South African economy continued to adjust favourably to the challenges posed by the changing global economy and domestic restructuring in the period under review. The economy grew by about 3,0 per cent last year, bolstered by a large increase in agricultural production, the rapid advances of specialised manufacturing industries, telecommunication and financial services.

## THE GLOBAL ECONOMY AND FUTURE PROSPECTS

South Africa's integration into the global economy reflects both increased diversification in the economy and faster structural export growth. Real merchandise exports and imports have increased their share relative to GDP. Real merchandise exports accounted for 18,8 percent of GDP in 2000 compared to 11,5 percent in 1990. Real merchandise imports increased from 12 percent to 19,8 percent over the same period.

The growth of exports in niche manufacturing industries reflects structural shifts in the economy as new sectors break into export markets. The growth of services exports is also evidence of increased diversification. Over the last decade, services exports have risen from 12 to 15 percent of total exports, while services imports have remained steady at around 16 percent of total imports.

Imports recovered last year in response to higher economic growth and in anticipation of better export conditions. Imports grew by about 9 percent by volume and by about 24 percent by value in 2000. This was largely attributed to imports of intermediate goods and capital equipment. The adverse effects of imported inflation due to currency depreciation would appear to be outweighed by the growth in exports reflected in the sizeable increase of the trade surplus.

The audited trade data shows that the surplus grew from R19,3 billion in 1999 to R24 billion in 2000, contributing to the lowering of the current account deficit to 0,1 percent of GDP. The export sector is expected to sustain the positive performance by taking advantage of the competitive real exchange rate, the stable inflation rate and increased market opportunities as trade agreements with the European Union, SADC and the Africa Growth and Opportunities Act (AGOA) are implemented in earnest.

Revenue collected from taxes on international trade and transactions has increased at an annual average rate of 13,2 percent between 1997/98 and 2000/1. This growth in revenue is accounted for by the country's increasing integration into the international trading system and significant improvements in customs administration.

The implementation of free trade agreements is increasing the complexity of administering the country's trading regime. This means that our organisation must proceed apace with reforms in customs administration in order to facilitate trade efficiently, while continuing to collect revenue effectively.

## DEVELOPMENTS IN THE DOMESTIC ECONOMY

The Budget Review 2001 attributed the steady economic recovery to rapid progress in productivity gains, product diversification and integration resulting in investment growth and output increases.

The export sector continued its commendable performance, buoyed by platinum prices and rapid growth of exports in new and diverse manufacturing sectors. Low inflation and a competitive real exchange rate supported the growth of exports.



### *Vereeniging Offices*

Last year the Minister of Finance introduced the most comprehensive set of tax reforms in South Africa's history to promote economic growth and development. The structural changes to the income tax are critical to improving the efficiency, equity and international attractiveness of the tax regime.

This was made possible by steady economic growth and the strong improvement in our organisation's capacity to collect revenue. Indeed, the marked gains in revenue collection, resulting in a higher ratio of national revenue to GDP, have made it possible for the Government to make real tax cuts over the last five years. This has released resources for private sector investment and household consumption, thereby enhancing the longer-term prospects for the economy.

Revenue collection by SARS amounted to R219,6 billion in 2000/01, exceeding the revised revenue target of R215,5 billion by R4,1 billion, and the printed target of R212,2 billion by R7,4 billion. The effect was to bring down the budget deficit to 1,9 percent, reducing the levels of borrowing and cost of servicing the national debt.

The growth in revenues has allowed the Government to increase the levels of support to the private sector, in particular the small and medium enterprises, in an effort to improve the levels of investment and employment creation. It has also made resources available to sustain efforts to overcome poverty and malnutrition, tackle the provision of health and social services, and develop human skills for gainful employment in support of a competitive economy. In addition, greater resources can now be allocated to fighting crime, and improving the quality and efficiency of government services.

This success is an outcome of a combination of measures implemented to raise the levels of compliance with tax and customs laws, improved revenue collection and customs operations, the reduction of backlogs in tax assessments through the creation of “war rooms” and the collection of outstanding debt.

In customs administration, the measures taken have focused, among others on combating commercial fraud, smuggling and the global trafficking of illicit drugs and other dangerous substances. Changes have also been introduced in operational processes to facilitate the flows of higher volumes of trade transactions and to implement free trade agreements.

After years of fiscal consolidation, the stage is now set for a growth-oriented fiscal policy. Increased expenditure on infrastructure investment and maintenance, recapitalisation of the transport and communications sectors and advances in social service delivery will lay the foundations for sustained economic growth and improved quality of life.

The National Treasury has projected that the economy will grow upwards of 3,5 percent over the next three years. It is expected that the export sector will continue to benefit from a competitive real exchange rate and increased investment. Domestic demand should rise steadily as household consumption improves in a climate of price stability due to lower interest rates.

Continued improvements in revenue collection, trade facilitation and overall performance of our organisation will ensure that the conditions of economic growth are not only met, but met with an increasing sense of urgency.



## SARS TRANSFORMATION

---

*SARS's transformation programme will improve operational efficiency and meet the needs of all taxpayers*

16



*Work teams enhance capacity and create more meaningful jobs for employees*

The SARS transformation programme is by far the most radical and ambitious change strategy in the history of revenue administration in South Africa. Key elements of the strategy are process re-engineering, concentration of scarce resources, service delivery and risk responsiveness in all areas of SARS business.

### SIYAKHA

A rigorous analysis and assessment of the key business areas formed the basis of the transformation programme. From February to May 2000 a study was undertaken to define key problem areas in SARS, and possible solutions. In June, teams were appointed to plan the implementation. The plans were completed by September 2000 and presented to the Minister of Finance and Cabinet and approval was obtained. In November SARS started consultations with its two representative unions, staff and other external stakeholders.

### OVERVIEW OF PROPOSED CHANGES

In terms of the changes SARS will establish centralised processing, compliance and service centres, while there will also be wide-ranging changes affecting Customs.

The Processing Centres will improve operational efficiency through the standardisation of processes, and the centres will focus on the assessment of taxpayer returns, registration of new taxpayers and the maintenance of taxpayer files.

Audit, collections and criminal investigation activities will be concentrated in Compliance Centres, allowing SARS to best use scarce resources and expertise and, more importantly, be able to develop a more integrated view of taxpayers.

The SARS Service Centres will focus on meeting the needs of all taxpayers. Key areas of operation will be to provide a facility where taxpayers' queries can be addressed either when they visit the centre, telephone or through correspondence. In addition there will also be a major focus on providing taxpayer education.

Far-reaching changes are planned for Customs. An automated cargo manifest system is being developed which will enable SARS to provide an electronic manifest acquittal facility resulting in faster processing of entries submitted and reducing paper administrative work. More importantly, it will enable SARS to improve risk-based targeting and eliminate unnecessary interventions. The specifications of the system have been completed and enhancements are being developed.

A system to automate the control on goods removed in transit/bond, and including real-time electronic acquittal and security re-instatement at approved places of exit within specified time frames is also being developed. Policy changes will be introduced to require road hauliers to license, lodge securities and adhere to specific exit points and acquittal times. By implementing these changes SARS will be able to exert more effective control of in-transit cargo.

A Warehouse Inventory Management System is being developed which will result in a perpetual inventory system that will provide information on goods and duties within bonded warehouses.

This will effectively reduce the time staff need to spend on inspections, allowing SARS to focus on enforcement.

SARS will introduce an Accredited Client Scheme, which will provide for the accreditation of importers, exporters, agents, road hauliers and bonded warehouses. Criteria will be set and SARS believes clients who comply will enjoy improved service. The system, however, will also allow SARS to eradicate unscrupulous operators.

A centralised registration and licensing system will be introduced which will improve registration and licensing criteria and allow for electronic submission of application forms.

An electronic system for refunding duties will be developed which will benefit operators through faster turn-around times on the issuing of refund claims and will also reduce the risk of duplicate claims to SARS.

## PEOPLE IMPACT

All these changes will be supported by introducing a team-based approach to work, shifting the emphasis from administrative control to enforcement.

Work teams will be introduced throughout the organisation and will necessitate a change in organisation structure and composition. Teaming will offer increased development opportunities to employees and strengthen the performance capacity of the organisation.

All new positions within the organisation will be advertised and staff will be assessed so that appointments are based on proven competency. SARS believes that through a transparent process of assessment and appointment it can address previous inequalities in the workplace.

By introducing the concept of work teams SARS believes it will enhance internal capacity, achieve greater success in enforcement and create more meaningful jobs for employees.

## TRANSITIONAL MEASURES

SARS' s transformation programme has been given impetus by establishing dedicated resources to wipe out processing backlogs, changing the management in offices and more clearly defining their responsibilities and accountabilities. In addition, specific staff has been assigned to provide a basic service to taxpayers.

SARS's commitment to improve levels of service saw the establishment of a point of presence in Sebokeng during the year under review, which is designed to provide taxpayer education. The Soweto Taxpayer Service Centre was also upgraded. In the Compliance Division a manual risk profiling system was introduced for our auditors and a new Debt Management System.

18

Agreement has also been reached with the tobacco industry to pilot the concept of assessing duty at the point of manufacture which allows SARS to be more effective in the collection of excise duties. In Customs the implementation of import, export and client interface teams has been piloted, and the results show considerable gains can be effected. All teams have begun to run pilots on the redesigned processes.

## IMPLEMENTATION SCHEDULE

A comprehensive pilot programme is planned for KwaZulu-Natal from October 2001. A phased rollout is planned for the rest of the offices: Western/Northern Cape - May 2002; Gauteng East – September 2002; Gauteng West – November 2002; Bloemfontein and Port Elizabeth – March 2003.

## TECHNOLOGY

The current IT environment is relatively stable as a result of the strategy that was pursued to stabilise the various applications and infrastructure during the past three years. The three, key guiding principles that were previously applied were to:

- Centralise;
- Standardise and
- Automate.

The SARS landscape has since changed rapidly with taxpayer, government, management and internal user needs becoming more sophisticated. The SARS IT environment, although stable, does not have the strength and maturity necessary to provide the kind of on-line, real time service that is required by key stakeholders.

Some risks that were identified in the way TSD is currently organised and which will form the basis for change were: lengthy applications development life cycle, inadequate management controls, skills shortage and a deficient permanent management group. Certain IT infrastructure, applications and strategies are outdated and do not support SARS's immediate business requirements.

These types of problems point more toward a management than a technical challenge. It is imperative that the TSD structure, strategy, architecture and management be re-organised to enable a speedy response to the evolving business requirements and become adaptive as opposed to reactive.

This involves examining:

- How current human capacity can be ideally organised. This refers specifically to the 290 contract workers in IT and exploring a more appropriate staffing model for the IT division.
- Possibilities of out-sourcing, in-sourcing and co-sourcing options for the procurement of skills, and applications developments.
- The current hardware infrastructure and how it will serve evolving business needs into the future.
- How SARS can exploit the use of "appropriate technologies" which entails substituting "home-grown solutions" that are suited to the unique situational conditions in Southern Africa.



SARS need to protect the investment that it has already made to date by developing the following:

- A comprehensive business architecture;
- An integrated applications architecture; and
- An integrated technology architecture

Some of the emerging SARS business requirements need to be anticipated and planned for in a systematic manner and presented in the form of a SARS "total solution" which accounts for:

- Developing a Single Taxpayer identification Number – TIN;
- Taking a holistic view of the taxpayer by developing a consolidated statement of tax accounts;
- Scanning and imaging technology;
- Integrated systems architecture and strategy;
- Collective registration;
- Automated risk profiling and assessment;
- Data warehousing and data mining;
- Migration to a relational database;
- Knowledge management in terms of process and technology and transferring this knowledge across the organisation; and
- Formulating an e-business strategy that will address the electronic filing of tax and customs documentation, e-procurement and taxation of Internet transactions.

## NEW BUSINESS APPROACH

The year 2000 marked a significant milestone in SARS's journey of transformation from a sluggish, bureaucratic organisation to a modern, model public sector organisation which responds quickly and effectively to the needs and interests of its stakeholders.

SARS's transformation programme will fundamentally change the way in which it conducts business. The starting point is re-engineering of processes to improve turnaround times and service quality, and reduce administration costs. This involves a new business architecture which concentrates scarce resources, and exploits the efficiencies of "back office" processing facilities.

The establishment of Service Centres and Call Centres underlines SARS's commitment to enhancing the service provided to compliant taxpayers. Compliance Centres will focus their attention on delinquent taxpayers, using sophisticated risk management tools and a more strategic approach to audit investigations. In the customs environment, new control measures to regulate goods in transit and warehouses will reduce opportunities for fraud and smuggling.

Customs operations will also change radically by introducing new processes such as the improved clearance processes for manifest, and export and import documentation. Customs personnel will also be organised into effective work teams that will be grouped around anti-smuggling and imports and exports

The development of an integrated e-business strategy and a unique partnership solution for the delivery of electronic services, marks SARS's emergence as a technologically-enabled player in the world of e-commerce. For SARS, this means using the World Wide Web to enable and facilitate:

- The filing of manifest, bills of entry and export documentation; Income Tax, Pay As You Earn (PAYE) and Value Added Tax (VAT) returns,
- Payments received from taxpayers/ traders;
- Procurement from preferred suppliers;
- Interactions with taxpayers and traders to provide service and education; and
- Taxation of Internet business transactions.

Another important feature of the new SARS is the introduction of integrated, multi-skilled work teams led by a new breed of managers. The new approach to business planning is underwritten by a greater emphasis on performance management.

## MEASUREMENTS

In order to meet goals and objectives, SARS plans to introduce an organisation-wide approach to performance measurement. Work is underway to give effect to the performance management contracts that will be in place, by developing a comprehensive performance management system to support aggregate planning, monitoring and reporting. The new approach SARS is adopting demonstrates to South Africans and counterpart administrations/ departments that it is committed to reaching set goals and objectives and its willingness to be held accountable for its performance. This new performance management system will be based on the principles found in the "Balanced Scorecard" approach and will include performance in areas other than revenue collection and cost control. In 2001/2002, achieving results with regard to the transformation of people and processes will play an important role in delivering a new SARS.

The new SARS is characterised by friendly and efficient staff who are willing to go the extra mile in delivering excellent service both internally and externally. The implementation of ministerial initiatives such as the introduction of new taxes and the practice of a risk management principles approach will also enjoy prominence in the way the new SARS is measured. SARS's accountability for performance against the agreed goals and objectives each year is through the annual report which is submitted to the Minister of Finance and the Portfolio Committee on Finance.

## PARTNERSHIP

SARS recognises that it cannot achieve its aims without forming strategic partnerships and alliances with key agencies and interest groups such as trade unions, organised business, professional associations, other government departments and international revenue and customs administrations. The continued collaboration and healthy interaction between SARS's policy departments and those of fraternal government institutions such as the National Treasury and Trade and Industry, will support the transformation in a more fundamental way. The strategic plan for 2001 is geared towards promoting these relationships in a mutually beneficial way.

Partnering with technology service providers is important to developing leading edge business solutions for SARS. Opportunities for partnering with Indian software houses, accredited tax-agents, skills brokers and academic and training institutions, among others, are currently being pursued by SARS.

## DOCUMENTING NEW POLICIES AND PROCEDURES

The substantial operational changes that have resulted from the redrafting of legislation and introduction of new taxes, processes and technologies, require that SARS document old and new procedures and policies that will govern the way in which it operates. These policies and procedures will ensure consistency and uniformity in the execution of day to day tasks and duties. The challenge that SARS faces is to document and assess old procedures and policies to determine which are still relevant and then write new policies that take into account legislative changes etc. SARS still needs to clearly articulate policies that are unequivocal on issues which include:

- HIV/Aids;
- Employee sexuality; and
- Affirmative procurement among others.



*Randburg Revenue Offices*

## INTERNAL CONTROLS & GOOD GOVERNANCE

Management plans to introduce robust internal control mechanisms to root out mismanagement and corruption while ensuring that appropriate structures and systems are in place and operating effectively. Management is also committed to exercising financial prudence and will ensure that its accounting responsibilities comply with the Public Finance Management Act, and that it provides sound financial control and record keeping, by implementing integrated revenue accounting systems. Furthermore, management will be looking at cost-effective logistics and facility management to ensure that SARS optimises its existing resource allocation, and explores new funding opportunities. The pro-integrity drive will require that transparent and integrated management processes are implemented.

The SARS Internal Audit Division plans to conduct a regular security analysis to identify high-risk areas. Minimising corruption by promoting integrity will require closer collaboration between the Compliance and Internal Audit divisions.

The optimisation of organisational resources must begin with legitimising the role of the Central Projects Office (CPO) to introduce proper project prioritisation and resource allocation. Introduction of an effective Management Information System and new regulatory policies, procedures and systems will assist SARS in its objective of complying with statutory controls and requirements.

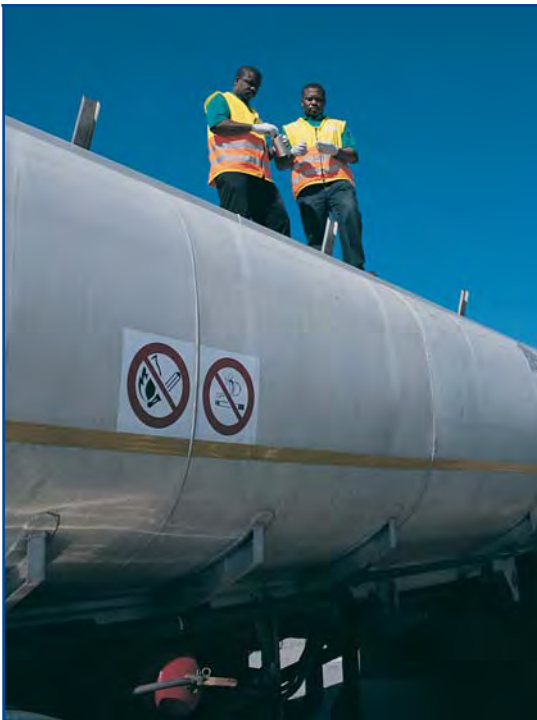


## OVERVIEW OF SARS'S MAIN BUSINESS LINES AND ACHIEVEMENTS

---

*A profile of the SARS' core business*

22



*Road fuel testing*

This Chapter provides an overview of SARS's main business lines and achievements in that regard. The overall context within which it will be discussed will cover areas such as:

- A 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 will cover issues such as the achievement of revenue targets, an analysis of revenue results, policy issues, new business approaches and service levels.

### Achievement of 2000/01 revenue target

SARS exceeded the printed revenue target of R212,2 billion by R7,4 billion as well as the revised estimate of R215,5 billion by an additional R4,1 billion in revenue for the year ended as at 31 March 2001.

### 2000/01 REVENUE RESULTS\*

Source of Revenue	Printed estimate R212,2bn R'000	Revised estimate R215,5bn R'000	Preliminary result R'000	Increase on printed estimate R212,2bn R'000	Increase on revised estimate R215,5bn R'000
Income TAX	121 303 481	122 925 000	126 336 337	5 032 856	3 411 337
Value Added TAX	52 857 635	54 000 000	54 549 276	1 691 641	549 276
Customs					
Duties	6 300 000	8 000 000	7 843 609	1 543 609	-156 391
Fuel Levy	15 970 000	14 900 000	14 495 289	-1 474 711	-404 711
Excise Duties	10 209 500	9 721 000	9 773 860	-435 640	52 860
Others	5 538 665	5 936 000	6 599 391	1 060 726	663 391
<b>Total SARS Revenue</b>	<b>212 179 281</b>	<b>215 482 000</b>	<b>219 597 762</b>	<b>7 418 481</b>	<b>4 115 762</b>
Departmental Revenue			5 548 822		
Less SACU Payment			225 146 584		
			8 396 000		
<b>Total National Revenue</b>			<b>216 750 584</b>		

\*Preliminary results, for final results see page 69.

These results build on the track record of the SARS since the 1995/96 fiscal year and the tables illustrate the revenue collections in relation to initial targets and in proportion to the Gross Domestic Product (GDP).

### INCOME TAX

Income tax amounted to R126,336 billion, which is R5,033 billion higher than the printed estimate amount.

**Income tax from persons and individuals** was R2,629 billion lower than the printed estimate. Receipts were reduced because of higher than anticipated refunds made to individuals due to clearance of backlogs and lower than expected provisional tax payments. Provisional tax payments were R1,266 billion lower than the amount estimated. This can mainly be attributed to slower than anticipated growth in current income received by individuals

**PAYE** collections were R188 million higher than the amount estimated.

**Income tax from Companies** was R6,215 billion higher than the printed estimate. Provisional tax payments were R5,295 billion higher than estimated. The higher than anticipated company tax collections can be attributed to increased compliance measures, i.e. adjustment of basic amounts for provisional tax purposes, legislative changes to the taxation of the long term insurance industry, as well as higher company profits.

Rising profitability was underpinned by ongoing cost cutting, especially in the area of employee remuneration. Employment numbers were reduced during the year, financing charges were lowered and the rand depreciated, impacting positively on the operating margins of firms, particularly those with a strong export orientation. Companies' refunds also grew slower than anticipated.

Collections in respect of Secondary Tax on Companies were R1,984 billion higher than the printed estimate of R2,1 billion. This has mainly resulted from considerably higher corporate earning distributions and receipts associated with restructuring transactions.

#### VALUE ADDED TAX

VAT collections for 2000/01 amounted to R54,549 billion, which is R1,692 billion higher than the printed estimate. The higher than expected amount can largely be ascribed to:

- Robust growth in private consumption expenditure, which was boosted by income tax reductions and lower bank lending rates;
- Higher product prices associated with the high international oil price and the depreciation of the rand,; and
- Improved audit and enforcement initiatives by SARS.

24

#### OTHER TAXES

Total other taxes amounted to R5,618 billion, which is R400 million higher than the printed estimate. The higher than expected amount can mainly be attributed to higher collections received in respect of transfer duties.

**Transfer duties** collections increased mainly due to buoyancy in the property market as a result of the persistently lower prime overdraft rate which led to an increase in credit for mortgage bonds. The total value of transactions was 37 percent more in 2000 than in 1999 and the number of transactions increased by 27 percent.

#### CUSTOMS DUTY

In 2000/01 customs duty collected amounted to R7,844 billion, which is R1,544 billion higher than the printed estimate. The value of imports increased in 2000/01 by 28,8 percent as opposed to a growth of 3,3 percent in the previous year. The duty collections correlate with the growth in the value of imports.

Customs duty collections benefited from the depreciation of the rand against the currencies of our major trading partners.

#### FUEL LEVY

An amount of R14,495 billion was received in respect of fuel levy, which is R1,474 billion lower than the printed estimate.

The lower fuel levy collections reflects the impact of the large increase in fuel prices on fuel consumption, caused by higher international crude oil prices during the past months. Fuel sales decreased by 1,2 percent during the 2000/01 fiscal year. The reduced collections are in line with the decreased consumption as indicated in the table below.



## GROWTH IN FUEL CONSUMPTION

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

## EXCISE DUTY

Excise duty collections were R9,773 billion, showing a shortfall of R435 million compared to the printed estimate. The reduced collections for excisable products can mainly be attributed to slower growth in consumption due to structural shifts in household consumption patterns.

Revenue collections since 1995/96

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01 (prelim)
SARS Total	R'000	R'000	R'000	R'000	R'000	R'000
Target	125 182 000	143 746 000	161 732 000	177 197 600	191 162 000	209 079 281
Efficiencies Added to target	100 000	1 500 000	2 500 000	2 000 000	2 735 000	3 100 000
Printed estimate	125 282 000	145 246 000	164 232 000	179 197 600	193 897 000	212 179 281
Total additional collections	1 896 989	1 805 656	1 112 600	5 224 831	6 323 955	7 418 481
Actual collections	127 178 989	147 051 656	165 344 600	184 422 431	200 220 955	219 597 762
Revised target	127 037 000	146 048 600	163 864 000	181 076 000	198 944 000	215 482 000
Actual collections	127 178 989	124 951 656	165 344 600	184 422 431	200 220 959	219 597 762
Additional above revised estimate	141 989	1 003 056	1 480 600	3 346 431	1 276 955	4 115 762

The additional amounts (collections above the original estimates) collected 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 fiscal year except for 1997/98 when it was down by R1,2 billion against the estimate.

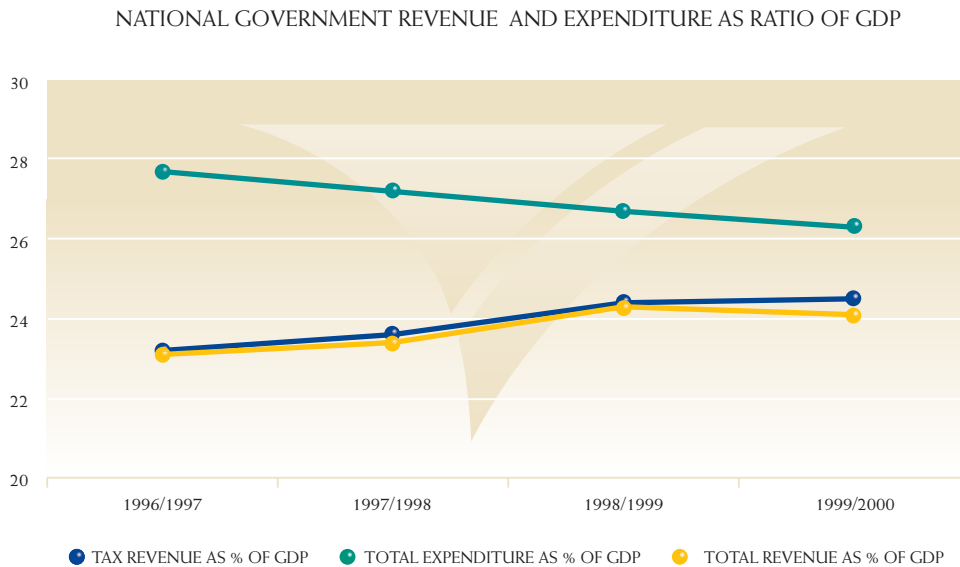
VAT also contributed an average of R500 million per fiscal year from 1998/99 to 2000/01 to the surplus.

Of interest however is the fact that collections from Persons and Individuals were R2,6 billion less than estimated, largely due to increased refunds resulting from clearance of backlogs.

Collections from Companies surged to R6,2 billion above the original estimates, largely due to a more effective application of legislation.

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. It has contributed indirectly to lower interest rate levels and has provided a positive boost to investor confidence.

The graph below illustrates the reduction of the fiscal deficit and national government revenue and expenditure as a ratio of GDP.



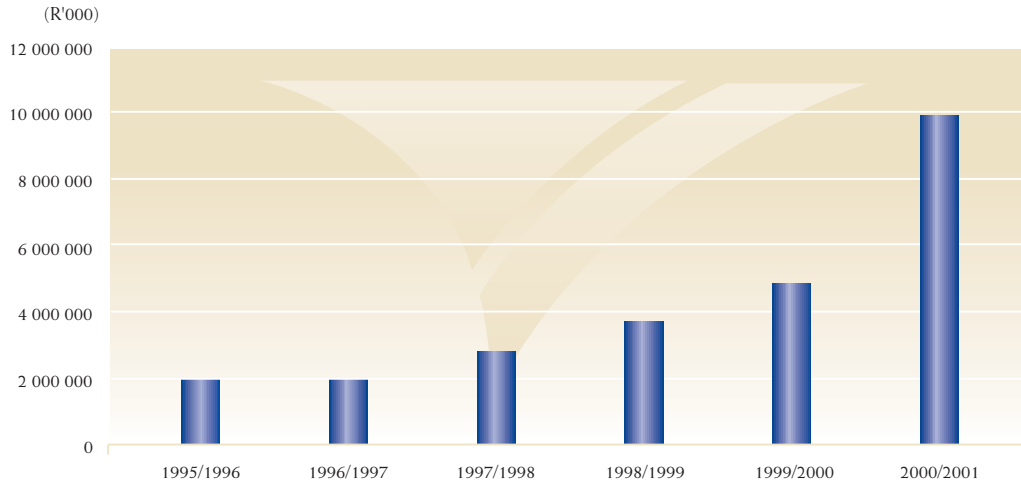
These gains have created conditions in which real tax cuts have released resources for private sector investment and consumption, further improving the growth prospects for the economy. From 1995/96 to 2000/01, Government has put R25,250 billion back in the hands of consumers by way of tax cuts. In addition, Government has, in the year 2001/02, provided tax relief to the amount of R8,3 billion. The cumulative tax relief over this period amounts to R33,6 billion. This has strengthened household income, reduced personal debt and improved consumer spending.

The table below illustrates the Personal Income Tax relief given to Individuals over the period 1995/96 to 2000/01.

#### SUMMARY OF TAX RELIEF PROVIDED TO INDIVIDUALS

Source	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	Total
(R'000)							
Individuals	2 000 000	2 000 000	2 800 000	3 700 000	4 850 000	9 900 000	25 250 000

## SUMMARY OF TAX RELIEF PROVIDED TO INDIVIDUALS



### TAX POLICY FRAMEWORK

The year 2000/01 was a year which gave rise to the most important and comprehensive set of tax proposals ever announced by a Minister of Finance in South Africa. The codification of these proposals led to the promulgation of the following legislation.

The Taxation Laws Amendment Act, 2000, which among others, provided for:

- Income tax rates adjustments;
- the taxation of foreign dividends;
- the introduction of an air passenger tax on international air travel;
- various amendments to the VAT Act;
- a graduated company tax rate for small business corporations;
- the revision of the exemption provisions of the Public Benefit Organisations;
- the depreciation of pipe, transmission and railway lines for tax purposes; and
- the closing of certain tax loopholes, which included:
  - provisions to ensure the matching of expenditure deductions and benefits;
  - the taxation of restraint of trade payments; and
  - taxing employment companies and trusts at a higher rate and on a basis which an employee would have been taxed;

The Revenue Laws Amendment Act, 2000 provided among others for:

- The changing of the tax system from the current source basis to a residence (or world-wide) basis of taxation with effect from years of assessment commencing on or after 1 January 2001;
- The implementation of the VISA system (an official stamp used on documents for preferential treatment of textile articles in the USA under the African Growth and Opportunity Act (AGOA)).

#### DRAFT CAPITAL GAINS TAX (CGT) BILL

Although the legislation governing the introduction of CGT was not finalised by 31 March 2001, most of the research and development work was done in the year under review.

The Minister of Finance announced in his Budget Speech on 23 February 2000 that a CGT was to be introduced with effect from 1 April 2001. A guide to the key principles of the proposed CGT was published on 23 February 2000 and public comment was invited.

Capital Gains Tax spurred heated debates across a broad spectrum of the South African society. As a result, over 300 submissions were considered and meetings with a number of associations and industry groupings were held.

28

After consideration of the submissions, a number of changes were made to the proposals. A draft Bill incorporating the changes to the Income Tax Act, necessary to introduce CGT, was prepared and published for comment on the websites of SARS and the National Treasury on 12 December 2000. Comments were called for and over 150 submissions were received.

In addition the Portfolio Committee on Finance and the Select Committee on Finance, after extensive preparation, jointly held public hearings on CGT during 23 January to 19 March 2001. The public hearings generated a great deal of public interest and debate in the proposed tax. After considerations of these two comments, an amended draft Bill was released on 2 March 2001 for comment. Cognisance had also been taken of these latest committees and where appropriate, they were included in the Bill.

#### INTERNATIONAL TAX TREATIES

During the year Double Taxation Agreements (DTA's) entered into force with Algeria, Luxembourg, the People's Republic of China and the Russian Federation. Numerous DTA's are in the process of being negotiated.

#### TRADE PROTOCOLS AND CUSTOMS AGREEMENTS

Preparations for the implementation of the SADC Protocol on Trade were successfully completed. This Protocol will lead to greater levels of imports and exports with our SADC partners. Both business and labour have already indicated the dangers of a negative impact on South African economy and South Africa's attempts to create jobs. SARS Customs will therefore be required to ensure compliance in the administration of the SADC Trade Protocol.

Customs successfully implemented the agreement, and customs will administer this protocol by continuing to facilitate trade and ensuring compliance.

The Customs Division introduced the measures required for country qualification that were examined by US Customs and found to be of high standard. It is estimated that the American Growth and Opportunity Act (AGOA) will create a further 300 000 jobs in the clothing and textiles pipeline. Business and labour have both positively complimented Customs for the timeous completion of the requirements for South Africa to qualify under AGOA.

A customs agreement for the rendering of mutual assistance between South Africa and Algeria entered into force and negotiations with Norway and The Netherlands are well advanced. Negotiations to conclude Memoranda of Understanding with Mozambique, Malawi, Zimbabwe, and Zambia are at an advanced stage. Internal preparations have also been made to raise the level of co-operation among customs administrations on the Common Customs Area.

#### NEW BUSINESS APPROACHES

- Re-engineering of business processes to improve turn-around times, quality of service and to reduce administration costs.
- New business architecture which concentrates scarce resources.
- The development of an integrated e-business strategy.
- The introduction of integrated multi-skilled work teams.

#### SERVICE LEVELS

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

- Dedicated service areas in the larger branch offices and to a certain extent in smaller offices.
- Assistance to taxpayers with the completion of annual tax returns.
- A simplified brochure was developed and distributed with the 2000/01 tax returns.
- The introduction of dedicated e-mail facilities in the Johannesburg branch offices and which will be rolled out to certain other offices.
- Appointment of a dedicated person to revised the current charter of SARS and to propose amendments in line with the current service delivery ability of SARS. This project included wide consultation with stakeholders such as SAICA, SACOB, etc.

## TAX REGISTER

Active cases on register is an indicator of the expansion of the tax base and are impacted upon by economic conditions, legislative changes and general levels of compliance. Except for the slight decrease in PAYE and VAT, mainly due to the effects of legislative changes, a growth was recorded in all other registers.

Active Cases	31/3/2001	% Increase/Decrease
Individuals	3 187 072	13.9%
Companies	976 720	16.3%
PAYE	211 425	-1.0%
VAT	450 295	-10.8%

Notes:

Increase in individual cases due to compliance and education campaigns as well as natural progression of SITE cases into cases qualifying for registration.

Increase in Company cases mainly due to compliance campaigns as the rate of company registrations with the Registrar has not increased dramatically year on year.

30

The number of active PAYE cases decreased slightly from July - September 2000 where after it increased steadily. This could be due to the closure of tax loopholes iro employment tax for companies established solely for that purpose.

Decreases in VAT cases due to de-registration. Vendors whose total value of taxable supplies was in excess of R150 000 but less than R300 000 in a period of 12 months could apply for deregistration.

## TAX OPERATIONS

### Tax processing

The operational productivity of SARS is largely dependent on efficient processing. The processing cycle consists of the registration, maintenance, issuing of returns and assessment of clients irrespective of direct or indirect tax administration. Within these functionalities (centralised in the War Rooms and Data centres and decentralised in branches) the main objective is to process the information in the shortest possible timeframe with a 98 percent accuracy rate. With this objective in mind it also supports the other divisions such as Audit and Collections in ensuring an as close as possible real time information (processed data) in order to perform optimally. Movements in the following areas are good indicators of productivity levels:

- Returns outstanding
- Returns unassessed
- New Income Tax System (NITS)



## OUTSTANDING RETURNS

Returns issued to clients for payment or assessment, as the case may be, must be submitted to SARS in terms of the specific legislation. Returns not submitted are regarded as outstanding and hence the active management thereof becomes critical to SARS as these expose the organisation to a future yet to be determined debt. The management of this process relates directly to not only debt management per se but also touches the issue of compliance and hence tax morality. A further consequence is the issue of SARS being perceived by the compliant taxpayers as partial and not applying the law uniformly.

The granting of extension for the submission of returns is also a process that is currently under the microscope as this impacts not only on the optimal use of processing capacity but also the flow of funding to the fiscus.

The active measurement and management of all outstanding returns whether legitimately or otherwise is crucial to the success of SARS.

The following statistics reflect the state of affairs as at 31 March 2001 in relation to returns issued to taxpayers on register and which are still outstanding. This measurement item is very much impacted upon by new registrations/de-registrations, extensions requested and granted, and non-compliance with return dates.

Type of Returns	31/3/2001	% Increase/ Decrease
Individuals	1 745 801	12.4%
Companies	871 703	4.3%
PAYE	509 187	29.7%
VAT	301 807	99.3%

31

### Individuals

Note: Although there are more cases on register, the trend is the same as in previous years. The clean-up exercise of the registers, which has been initiated, will impact on the returns regarded as outstanding. Tight management of extensions will also affect this pattern.

### Companies

Although there are more cases on register, the trend is the same as in previous years. The clean-up exercise of the registers, which has been initiated, will impact on the returns regarded as outstanding. Tight management of extensions will also affect this pattern.

### PAYE

Although there are more cases on register, the trend is the same as in previous years and follows the production cycle. The clean-up exercise of the registers, which has been initiated, will reduce the returns regarded as outstanding.

### VAT

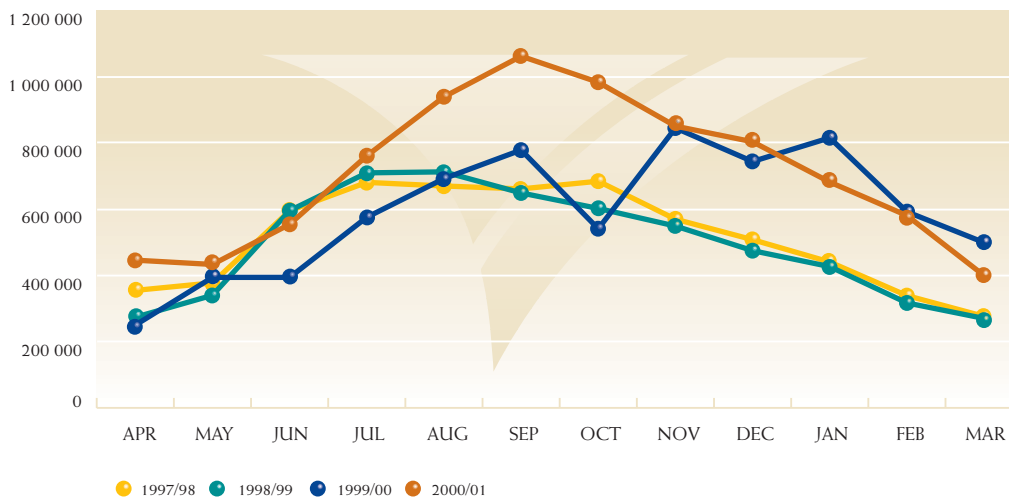
Note: The number of returns outstanding compared to the 1999 year is distorted due to the increase in the threshold for compulsory registration in that year. Vendors whose total value of taxable supplies was in excess of R150 000 but less than R300 000 in a period of 12 months could apply for de-registration. Vendors whose taxable supplies were below R20 000 were removed from the register. The result was a sharp reduction in 1999 whereafter it increased to the 1998 levels again.

## Returns Unassessed

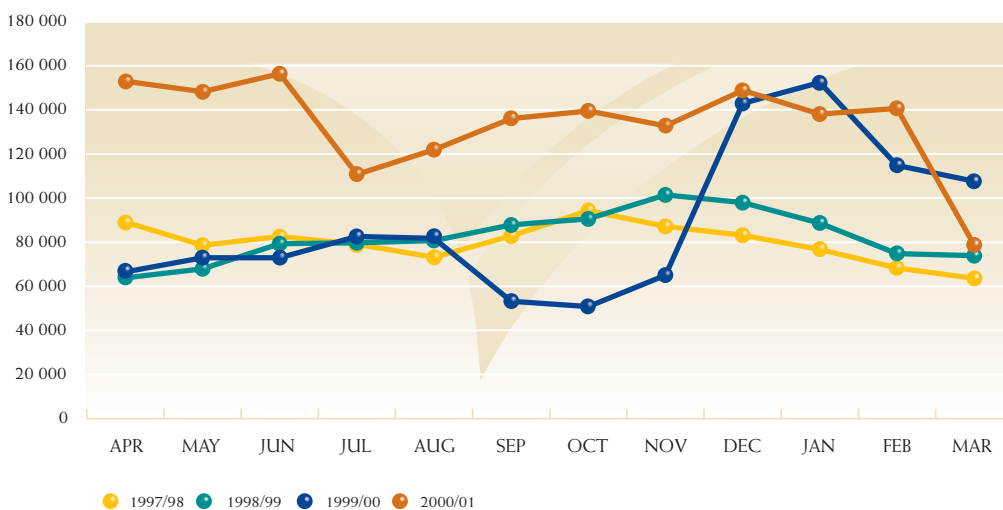
Some serious backlogs developed during the last few years in the assessment arena due to the implementation of the New Income Tax System and the loss of skilled staff to the private sector. During this period the ability of SARS to process and issue assessments was hampered and dysfunctional.

The following reflects the unassessed returns nationally as at 31 March 2001 in the case of Individuals and Companies:

RETURNS UNASSESSED - INDIVIDUALS



RETURNS UNASSESSED - COMPANIES



Note: decrease in unassessed returns due to the active clearance of backlogs.

## War Room Concept

Three War Rooms were conceptualised and implemented. The first War Room was implemented in Pretoria on 1 September 2000 while the Durban and Cape Town War Rooms became operational on 2 January 2001.

The first objective of this concept was the elimination of assessment backlogs of tax returns by the end of April 2001. Initially the focus was the capturing of IT 12 S returns only. The capacity and competence of the War Rooms were soon (within one month of inception) expanded to include more complex forms such as the IT 12 BU's.

The second objective was to improve on the Quality Assurance of the processing pipeline – for instance the process of check return was streamlined in that total dedication was obtained. This was done by removing all interferences such as telephones. The public was addressed via dedicated service personnel. This resulted in a substantial increase in productivity in the branches and to this extent assessment backlogs were worked off in close partnership with the three War Rooms

Eventually all three War Rooms evolved regarding their core competence which included the ability to Check Return and Quality Assure the more complex returns such as IT 12 BU's and corporate returns. In addition a quality feedback loop with quality checklists were established in the top ten branches to ensure that quality work was produced. This led to a further saving in that staff did not have to spend time on re-working previous work.

The Pretoria War Room has succeeded in processing 377 441 returns since inception. More than 40 000 returns were processed by the Pretoria War Room on behalf of Durban and Cape Town.

The Durban War Room has succeeded in processing 88 695 returns and in the process assisted Pietermaritzburg in eliminating their backlogs as well.

The Cape Town War Room had to assist Bellville as well as some of the smaller offices such as Worcester in processing their backlogs. Eventually 253 574 tax returns were processed by the Cape Town War Room.

All three War Rooms ultimately succeeded in processing all types of returns which included IT 12S, IT14's, Trusts and BU' cases. The total processed by the three War Rooms amounted to 719 710 returns.

The TOP 10 branch offices consisting of Johannesburg, Durban, Pretoria, Cape Town, Bellville, Randburg, Port Elizabeth, Germiston, Roodepoort and Pietermaritzburg contributed by processing 1 396 275 returns.

The results of these efforts are as follows:

Unprocessed returns in top 10 offices @ 15/09/2000	850 584
Normal inflow of returns up to 31/03/2001	1 485 401
Total Returns	2 345 985
Returns processed	2 115 985
Balance unprocessed on 31/03/2001	230 000

## New Income Tax System (NITS)

The implementation of the New Income Tax System (NITS) was a highlight during the previous financial year. For the past year, concentration was focussed on the stabilisation of the system after initial teething problems as well as the development of further functionality. This online system is the main source of processing of all income tax transactions.

NITS was implemented with all the basic functionality for Registration, Assessment, Audit and Recoveries (that is the account, refunds etc.). Problems were experienced due to the late implementation of the Bulk Data Capturing system. Staff was required to capture all returns on-line manually. This on-line function was not designed to handle mass capturing and does not have a validation function.

In NITS the return is captured at face value and the incorrect / partial completion by taxpayers affected the accuracy of assessments. Dedicated help desks were established in all branch offices to assist and expedite the processing of complaints and objections from clients nationally. This process was actively managed until these mistakes were reduced to acceptable levels.

Various complaints with regard to the statement of account (IT 93) were received from the accounting profession. Continuous discussions with members of The South African Institute of Chartered Accountants (SAICA) were held. During the year the format and distribution of the statement of account was streamlined.

The electronic submission of tax directive applications by large companies on behalf of retirement funds has various benefits. It contributed to a reduction in the workload in the branch offices and also enhanced uniformity in the treatment of the applications.

During the year the first batch of provisional tax returns were issued on NITS. For the first time a debit was created on a taxpayer's account for an amount due based on the previous year's taxable amount. This new concept created various problems. Most of these problems were resolved before the provisional tax returns for second period of the 2001 year of assessment were issued.

During the first six to seven months of the past year NITS has been stabilised and the system has now proved itself to be effective and has dramatically improved turnaround times. NITS is a dynamic system and has the potential and capacity to support the further transformation of SARS as well as future ministerial initiatives that have to be implemented during the next financial year.

An Improved Bulk Data Capturing system (BDC) and a new client server PC based system were introduced replacing the previous data-capturing system in the ten data centres nationally during August 2000. This new system is compatible with NITS in that it also links with the database facilitating cross verification of information being captured. This resulted in the problems experienced with online capturing on NITS being resolved.

As a further enhancement the BDC was also implemented at the top ten branches, increasing the data capturing capacity to 20 branches nationally.

The BDC system was then further refined in that the verification process (the action where the data is captured twice to ensure accuracy) was reduced from 100 percent to 80 percent. The non-critical data was captured only and not verified. This has led to a direct capacity enhancement of 20 percent in all the data centres, resulting in a dramatic improvement in turnaround times.

## COLLECTIONS

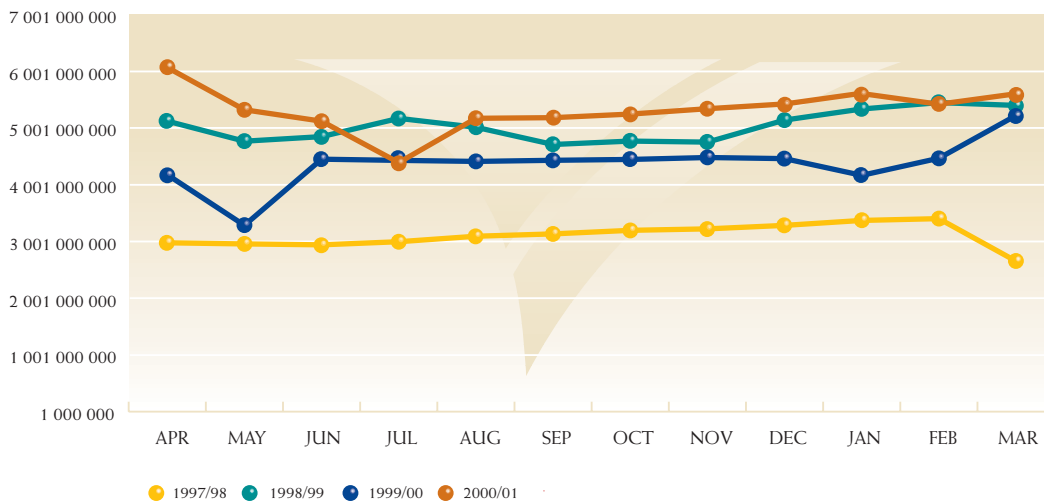
Collections was established as a division in 1998. The initial focus was the management of outstanding moneys and returns. In addition collections will now also focus on the broadening of the tax base. The function has been with SARS for many years, but only received specific attention after SARS became autonomous in 1997.

The main focus during the past year was on the development and implementation of a new system to manage the outstanding debt more efficient and effectively; the so-called Debt Management System that was introduced in October 2000.

Other initiatives to improve on the efficiency of debt collection such as the establishment of an outbound call centre and the acquisition of the assistance of a private collection agency for the collection of debts between R2 500 and R20 000, have also been implemented.

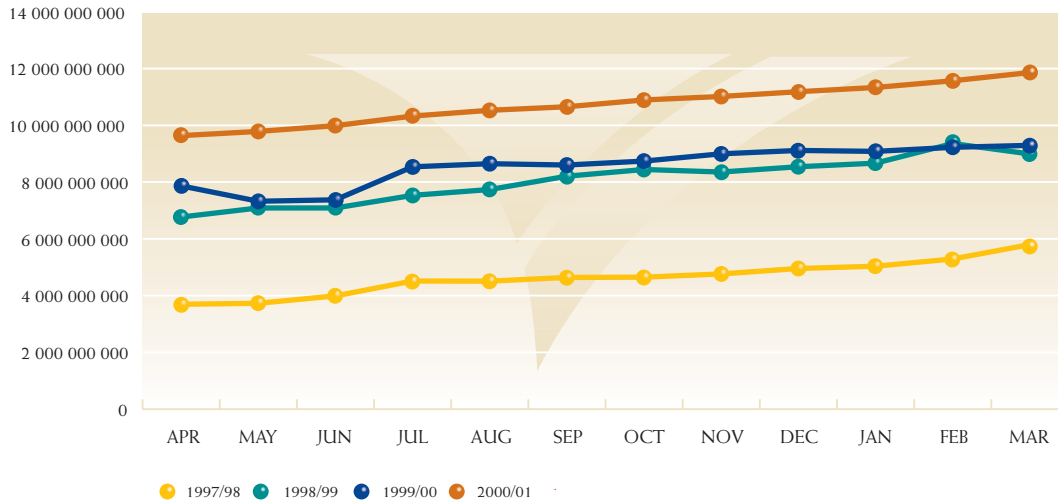
The following reflects the outstanding debt in the case of Individuals, Companies, PAYE and VAT as at 31 March 2001.

OUTSTANDING DEBT - INDIVIDUALS



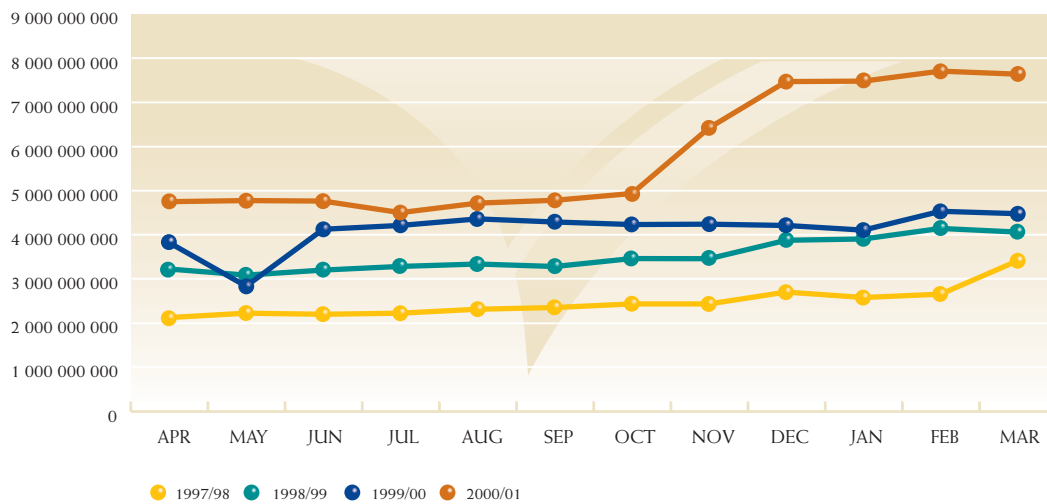
Note: The outstanding debt started to increase from November 2000 mainly due to targeted follow-ups resulting in additional debits being raised.

### OUTSTANDING DEBT - VAT



The outstanding debt remained relatively stable throughout the year with minor increases from September to March 2001. This increase should be viewed in context as SARS reduced its unassessed Income Tax return backlogs dramatically over this six month period. As the backlogs were cleared by end of April 2001, SARS created a more stable environment for the Debt Management focus during the 2001/02 year.

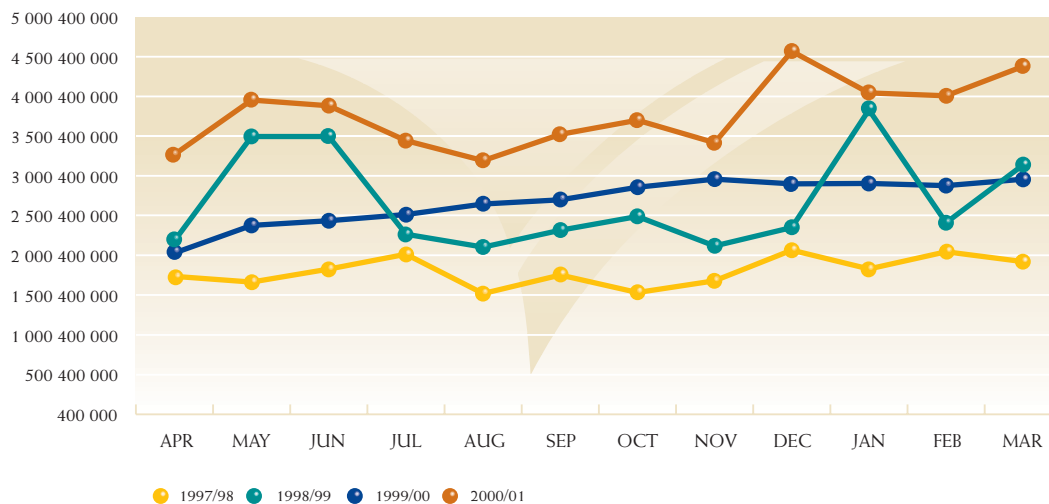
### OUTSTANDING DEBT - COMPANIES



Note: An increase of 215% was posted on the Companies debt in the KwaZulu-Natal region where large assessments were raised on a few cases. These cases are still subject to the legal process and the amounts involved could be revised.



## OUTSTANDING DEBT - PAYE



Note: The outstanding debt started to increase from November 2000 mainly due to targeted follow-ups resulting in additional debits being raised.

The new approach to debt management should decrease the debt outstanding. Targeted audits also added to the outstanding debtors total.

### DEBT MANAGEMENT SYSTEM

Collections embarked on the development of the Debt Management system for the reason that the current system only provided historic information and hence did not fully satisfy the operational needs of the organisation. The primary objective of the new debt management system is to provide excellent taxpayer service. This will be achieved through the standardisation of processes and by providing internal users with access to on-line 'real-time' information regarding the cases they are working on.

The system has been developed in consultation with employees and managers and is a risk management tool that:

- Establishes and identifies debt trends;
- Assists in counteracting negative down-swings;
- Improves turnaround times;
- Assists in establishing primary risk focus areas;
- Is a quality management programme.
- Analyses how old debt is;
- Grades debt;
- Provides a reporting mechanism; and
- Monitors the debt management performance of the office.

There has been significant results and improved performance by offices since inception of the system. Up to the month of March the national monthly target set was exceeded by R218 million.

The Debt Management System implementation has succeeded in providing Executive Management information for managers to be in the position to track performance on set targets. The system also succeeded in providing a tool to offices to be in a position to better manage their debt.

### Promotion of electronic payments

The benefits of payments at banks were marketed to taxpayers, which resulted in an increase in electronic revenue flows.

This method has led to a direct improvement of services to taxpayers using this service. The method also reduces the risk due to fraud with normal cheque payments.

Payments through banks by clients increased from R28 billion in 1999/00 by R20 billion to R48 billion in 2000/01. Electronic payments increased by R1,4 billion from R23,5 billion in 1999/00 to R24,9 billion in 2000/01.

## COMPLIANCE DIVISION

38

Special Investigations and Audit were combined together into a new division, the Compliance Division. In June 2001, Collections will also be integrated into Compliance. The core function of the Division is that of enforcement of tax and customs compliance throughout the country. In pursuing this mandate, various policy and procedures had to be harmonised within the division.

Fundamental strategic changes were the following:

- Special Investigation to focus on revenue and customs related offences that will lead to Prosecutions, and
- Audit to focus on the civil procedures for optimisation of revenue

The merging of these sub divisions has resulted in sharpened enforcement skills, leading to cross-functional synergy in the execution of its mandate.

### AUDIT

Tax auditors are spread out among the 42 revenue offices. With the formation of the Compliance division, all auditors will eventually be integrated into seven compliance centres and a number of satellite teams.

### Audit policy

SARS did not have a formal Audit Policy, which resulted in a fragmented approach to the Audit function. In the year 2000 the SARS Audit Policy was drafted detailing a differentiated audit approach.

The audit policy describes the strategic direction for Audit and details the following issues:

- Functions of Audit and a definition of the types of audits undertaken by SARS;
- Case selection committees and annual and periodic audit planning;

- Risk profiling and the definition of audit risk;
- Focus on integrated audits thereby ensuring that a taxpayer is audited for all taxes;
- Code of conduct governing tax auditors; and
- Generation of audit reports, plans and programmes to support Management Information System.

Some aspects of the Audit Policy are already implemented.

### Integrated audits

This is a dramatic shift from silo based auditing in which the audit is driven from a single tax type. With the single tax approach, it is only the major taxes, i.e. VAT, Income Tax and PAYE that are audited.

The integrated audit approach ensures that all taxes administered by SARS are also given attention.

Further more it ensures that the non-compliant taxpayer is audited for all of the taxes thereby increasing the possibility of detecting evasion and reducing tax fraud.

### RISK ASSESSMENT (MANUAL AND COMPUTERISED)

SARS has approximately 3,6 million active taxpayer files, with each auditor having, on average, 2 100 cases. One needs to factor in that the highly competent auditors only form 20 percent of the auditing staff, and therefore it is necessary to select cases most likely to result in optimisation of resources and revenue collection.

In this regard, risk is split into two areas:

- The identification of risk that recognises the selection of cases to be audited (Manual and Computerised)
- Following identification, the recognition of risk within a case.

A manual risk assessment system was developed during 2000 and is now being implemented in the different offices, commencing with the four embryonic centres mentioned above. Presently 25 percent of the audit component is working on this basis, and it is estimated that this will increase to 75 percent in the ensuing year.

The Computerised Audit Risk Analysis Programme (SARAP), for the South African Corporate Tax environment has been developed for Corporate Income Tax Returns (IT 14). This programme was developed with the technical assistance of the Swedish Tax Authority and the Swedish International Development Agency (SIDA). It will be rolled out to the major Compliance Centres in the second quarter fiscal 2002. The taxes covered by the project will be extended in the future to include VAT, PAYE, Customs, Excise, and Individual taxpayers.

SESAM is a computerised audit tool, which enables efficient and rapid general ledger data interrogation of the taxpayer. This programme was further enhanced during the second half of 2000. Following this enhancement, 82 auditors have been trained in its application, achieving results of R94 million additional taxable income to 31 March 2001.

## AUDIT PLANNING

Audit plans were not a feature of tax audit in SARS. Rather, cases were selected on a reactive and random basis, with a focus on perceived rather than actual risk.

In line with the introduction of the SARS Act, the Public Finance Management Act (PFMA) and the promotion of Fair Administrative Justice Act, Audit have taken a business approach in the preparation of audit plans which currently detail the following:

- The types of industries that will be targeted in a particular region together with a list of the actual taxpayers falling within those confines;
- The integrated audits that will be undertaken with the proposed audit team;
- The budgeted times allocated to specific projects; and
- Allocation of resources.

In drawing up the audit plans, cost benefit considerations play a key role. This includes an identification of:

40

- The benefits to be achieved in line with the costs to be expended (actual and opportunity costs); and
- A weighting of the time and costs taken to settle cases via the objection procedures as opposed to Alternative Dispute Resolution (ADR) mechanisms.

## SIGNIFICANT ACCOMPLISHMENTS

### Additional tax assessments

The value of additional tax assessments issued by auditors amounted to approximately R5b for the 1999/2000 year and this has dramatically increased to R6,2b for the 2000/2001 year.

TAX	No. of Audits	RESULT	Average Result per Audit
VAT	147 495	R 2 880 302 796	R 19 528
PAYE	7 593	R 475 507 974	R 62 625
Income Tax Companies	51 562	R 1 021 062 286	R 19 803
Income Tax: Individuals	389 364	R 1 993 287 818	R 5 119
Total	596 014	R 6 370 160 874	R 10 688

Not included in the above, is an amount in excess of R2 billion additional cash generated from improved application of provisional tax rules and regulations. This procedure has accelerated the receipt of provisional taxes by up to five months and in the context of "time value of money" has contributed revenue amounting to a further R125 million.

## INTERNAL ACCOMPLISHMENTS

### Audit Training

During the Siyakha planning process external consultants highlighted that audit training needed to be addressed urgently. During the second half of 2000 SARS trainers, with assistance from the US Inland Revenue Service, drafted a new audit course. The course began in January 2001, and is due to be completed in December 2001. It will equip auditors with the necessary skills required in terms of the new audit approach. Aspects covered included:

- Time management;
- Preparation of audit programmes and the utilisation thereof; and
- Audit of complex tax issues (Foreign Exchange, transfer pricing, Section 24j);

An additional objective of the course was to commence the process of multi-skilling.

### Transfer Pricing Section

Transfer Pricing is a highly complex tax area affecting any corporation engaged in foreign exchange transactions. A special unit, based in Randburg, was formed to deal with the challenges it poses. The change to Residence based Taxation will have a significant impact in this field. The activities of this newly formed unit resulted in additional revenue of R75 million. Current activities are focused on transactions to the value of R1 billion (taxable income) out of which a result of R100 million is expected.

A course was also hosted by the German Development Foundation, where auditors from various offices were provided with audit techniques specific to transfer pricing.

### Capital Gains Tax Section

Capital Gains Tax is another complex tax area requiring specialised skills. To address this, a Capital Gains Unit dealing with highly complex scenarios is to be established in the Gauteng West (Randburg) Compliance Centre.

### PAYE questionnaire

SARS systems do not support the risk profiling of PAYE returns. The PAYE questionnaire was developed in direct response to this. This forms part of the manual risk profiling. Apart from bringing in results of R34 million, the questionnaire has also gained a place of respect in the corporate environment as well as the accounting and taxation fraternity, with external courses being hosted to prepare taxpayers in answering the questions posed by SARS.

The questionnaire poses key questions to taxpayers that assists in determining the remuneration and salary structuring practices of the employer, as well as whether the employer is compliant with PAYE legislation.

## SPECIAL INVESTIGATIONS

The focus of the division changed during 2000, and the past year was a time when many of the policies and processes underpinning the transformation, concentrating solely on criminal prosecution of tax offenders, were formulated.

A standard criminal investigation process was developed. This process was encompassed in a manual to ensure that all future investigations will be done in accordance with the procedures described. This process maps out the different stages of an investigation from the point when SARS becomes aware of an allegation or irregularity – up to the point of handing over that completed dossier to the Prosecution Authorities.

The case selection criteria for investigations are risk-based. A risk analysis document is produced on an annual basis and is the culmination of all information gathered from internal sources, the SARS Hotline, coupled with information gathered from understanding the economic environment and the identification of trends in economic activity.

The information is fed into a central database utilised by a dedicated research analyst section who then identify areas of compliance risk. Ultimately the annual risk analysis informs the case selection criteria and priority rating for cases to be investigated.

42

### Suspicious activity report (SAR)

This document is the main source of information that is fed into the central database that ultimately contributes towards the risk assessment. The design of the document is user friendly (in order to ensure that any tax and customs related activity suspicious or otherwise) can be reported from any source within or outside SARS and captured accordingly. Case selection is done by analysing the SAR within the context of the annual risk analysis assessment report.

A significant increase in the number of SARs is expected because the initiative has been launched in Customs, Audit and will be implemented later in the Anti- Corruption Unit.

### Prosecutions

In the early stages of the financial year, the division concentrated mainly on historic cases (covering statutory tax and duty evasion) but simultaneously started investigating cases according to the new standard procedures developed.

The results of criminal proceedings instituted were significant as depicted in the table hereafter.

Total cases on court roll:	107
Number convictions:	27
Total years direct imprisonment resulting from convictions:	121 Years
Total number of fines imposed resulting from convictions:	R 2 225 139,90
Monies recovered by SARS in relation to prosecutions:	R 475 317,89

To date more than half of the staff compliment of Special Investigations has undergone the course and the remainder will all be trained in the next financial year. The results of the training are becoming evident in the number and type of new cases being investigated and are expected to reflect in the coming year's statistics.



## SIGNIFICANT ACHIEVEMENTS

Despite the fact that these are early days for the new direction, a number of high profile investigations were undertaken, some of which received much media publicity.

The most prominent of these cases involved a JSE listed wholesaler where refunds were claimed for fictitious transactions.

The criminal elements of the fraudulent transactions are currently under investigation and will be placed on the prosecution roll during the 2001/2002 financial year.

The affairs of a prominent motor vehicle importer were also investigated for tax and customs duty evasion. Additional assessments were eventually raised. The investigation is continuing but noticeable results arising therefrom are:-

Additional taxes amounting to R15,6 million were assessed and collections to date amount to R1,5 million;

The dismissal and criminal prosecution of a SARS - official who had been identified through the investigation process. The official has been sentenced to six years imprisonment and the case is presently on appeal;

The Asset Forfeiture Unit of the NDPP has also featured prominently in this investigation – seizing the assets of the Company and the Directors and Shareholders to the value of R60 million.

The financial investigation of another JSE listed company operating in the electronics environment culminated in assessments being raised and R34 million being collected. A director of the company and a supplier have been charged criminally.

A further area highlighted during the course of this financial year were prevalent irregularities within the Electronics Industry.

Investigations were also prompted by the fact that the legitimate traders were losing business to the criminal element and were facing financial ruin, and appealed for the playing fields to be levelled. SARS engaged the main role-players in that sector of the industry, once again involving prominent JSE-listed companies. The purpose for engaging the role-players was to obtain their co-operation so that self-auditing could be agreed upon and attained. This allowed for a shorter investigation period.

Another noteworthy aspect of this investigation is the fact that it has, involved all the disciplines within SARS, SAPS and the NDPP. This naturally bodes well for the future co-operation between the various Government bodies in the continuing battle against organised revenue related crime.

Thus far a total civil liability against taxpayers amounts to over R200 million of which almost R50 million has already been collected. A further R50 million has been secured by way of securities and eight persons have been charged criminally, two of whom have already been convicted.

## ANTI-CORRUPTION UNIT

The Anti Corruption Unit now forms part of the Compliance Division, reporting directly to the General Manager: Compliance. Since the unit has limited investigative capacity it co-opts auditors and investigators from other areas of the business. Its primary focus of attention is directed towards co-ordinating various anti corruption investigations nationally. The unit furthermore engages in joint operations with other law enforcement agencies such as the National Director of Public Prosecutions and the South African Police Service.

A key feature of investigating corruption in the 2000/2001 year was that in the main it was prompted from the investigations of tax and customs evasion externally. These external investigations provided leads to alleged corruption within SARS.

The following table depicts the status of anti-corruption investigations for the past year:

Inconclusive cases (no disciplinary actions/no prosecution)	Convictions in criminal courts of SARS employees	Dismissals of SARS employees
22	5	57

## SECURITY

### Security Policies

The Information Security Project which is responsible for drafting security related policies has been launched. It will be responsible for areas such as Logical Security, Physical and Environmental Security, Electronic Information Asset Security Measures and Personnel Security. The project is 65percent complete and will result in definite guidelines and procedures regarding all security issues. These include a national firearm policy, a parking policy at head office, occupational health and safety and minimum security requirements for new buildings.

## IMPLEMENTATION OF TAX PROPOSALS

Special focus has been placed during the past year on the implementation of the tax proposals. The following progress has been made with the development and implementation of Air Passenger Tax, Capital Gains Tax, Residence Basis of Taxation, the Diesel Rebate, Small Business Corporations, Foreign Dividends and Employment Companies: year on the implementation of the tax proposals. The following progress has been made with the development and implementation of Air Passenger Tax, Capital Gains Tax, Residence Basis of Taxation, the Diesel Rebate, Small Business Corporations, Foreign Dividends and Employment Companies:

### Air Passenger Tax

An Air Passenger Tax for International Departures was instituted on 1 November 2000. The new tax was announced in the Minister's Budget Speech in February 2000 and an instruction was issued shortly thereafter to develop a system to administer this tax.

As most of the operators and agents are represented within the Gauteng area, it was decided that the Customs Branch at the Johannesburg International Airport should administer the Air Passenger Tax.

Due to the short notice for developing a fully computerised system to administer this tax, a decision was taken to implement the system in phases. The critical functions such as the registration of clients, Issuing of monthly returns and processing of payments, have already been implemented. The rest of the processes will be implemented in practical suites.

This system is an achievement and made history within SARS as it was the first time that SARS's clients could register directly on the Internet. More than 90 percent of the clients have utilised this method of registration and the feedback was very positive.

### Diesel Rebate System

A Diesel Rebate System to administer the concession that exists for coastal shipping and fishing industries was implemented in April 2000. This system is administered by appointed diesel suppliers who provide diesel at a rebate price to these sectors.

This system will, from 4 July 2001, be incorporated in the new Diesel Refund System, which is currently under development.

### Capital Gains Tax

Work on the development of the system and preparation for implementation started shortly after the announcement in the Budget Speech.

Various sessions were held to determine the requirements in order to implement this new tax. All current requirements have now been developed. The finalisation of the legislation is being awaited to affect the final requirements. Tax returns for the 2001 tax year were already adapted to make provision for Capital Gains transactions that may occur.

A comprehensive implementation plan has been drawn up for the implementation of CGT on 1 October 2001. This implementation plan addresses internal and external communication, a Capital Gains Tax unit to assist taxpayers and training of staff and stakeholders. Staff were identified and received training in all the SARS branches to deal with any implementation issues.

A call centre to assist taxpayers and branches with Capital Gains Tax queries was established at SARS Head Office and has been in operation since 26 February 2001.

### Residence Basis of Taxation

Requirements for the implementation of Residence Basis of Taxation were finalised and all functions have been developed.

Extensive training has been provided to staff and stakeholders and various brochures on this topic were issued.

## Small Business Corporations, Foreign Dividends and Employment Companies

All requirements were finalised and have been developed. These developments have been implemented during April 2001 in time for the 2001 annual Income Tax returns.

This has been widely communicated with stakeholders and staff have been trained in all the branches to deal with queries from taxpayers.

## Skills Development Levy (SDL)

The Skills Development Levy administration system has been implemented during March 2000, following the announcement that SARS will administer the Skills Development Levy Act on behalf of the Department of Labour.

The system was largely based on the PAYE system and initial mass registration of levy payers was done during February / March 2000. Within the first two months approximately 200 000 clients were registered.

Collections amounted to R1,2 billion (against the target of R1,4 billion) which is an indication of a high compliance rate.

## CUSTOMS OPERATIONS

This section provides an overview of the efforts being undertaken by SARS Customs to deal with the new challenges. It outlines the results achieved against the objectives set for the past financial year, the new business approach taken to reform and modernise our Customs operation, other operational outputs and future developments.

Growing backlogs in the processing of transactions, staff training, policy development, and border infrastructure, including staff accommodation, office space, amenities, and equipment. Contextualises the environment under which Customs has had to meet its objectives. This section provides an overview of the efforts being undertaken by SARS Customs to deal with the new challenges. It outlines the results achieved against the objectives set for the past financial year, the new business approach taken to reform and modernise our Customs operation, other operational outputs and future developments.

### NEW BUSINESS APPROACH

In July 2000 the SARS Executive Committee created a division with a General Manager to manage the Customs side of the SARS business. The Management Team was quick to charter the Customs division with a new approach to conducting business. Some of these initiatives include the development of a strategic framework, a performance management system, operational management systems and the building of strategic alliances with other government departments, business and labour. This new approach allowed Customs to meet its strategic objectives with the limited resources available.

## STRATEGIC FRAMEWORK

The following key strategic activities for Customs have been placed at the fore after a strategic planning workshop in August 2000:

- Control and account for all imports and exports;
- Collect and bring into account all revenue due;
- Administer specific industry schemes, trade measures, international protocols and other international obligations;
- Eradicate smuggling and other transgressions and enforce controls on the importation of prohibited and restricted goods; and
- Facilitate legitimate trade and tourism.

## CUSTOMS PERFORMANCE MEASUREMENT SYSTEM

In the last three months of the year under review the Customs Division has been developing and testing a performance management system. The objective of this exercise is to radically improve management controls and raise the performance levels of the whole division.

The performance management system measures four main variables in the manner of the balanced scorecard.

- Income and effective control;
- Process efficiency;
- Client service; and
- Learning and growth.

The first three measures refer directly to the mission and strategic objectives of Customs. The aim is to rationalise our activities in this regard so that the achievement of the revenue and compliance targets is not fortuitous, but a necessary result of purposeful actions.

The performance management system has been tested only at the branch level of activity. However, work has already been done to develop a consolidated performance management system that gives national data. Similarly the individual performance plans are also structured in the same manner. Customs will work towards a seamless approach in developing the performance management system for individual, team, branch, divisional and corporate outputs.

## OPERATIONAL MANAGEMENT SYSTEM

The division has also embarked on the implementation of a Quality Management System. This will ensure that all key processes and procedures are properly defined and documented and that they are standardised throughout the country and also conform with international best practice. It is envisaged that full implementation will prepare the division for ISO 9000 certification.

## STRATEGIC PARTNERSHIPS

### BUSINESS AND LABOUR

There has been a dramatic improvement in relationships with the business community and organised labour during the year under review. This is the result of better communication and the invitation of these key stakeholders to customs workshops in the past two years. The division also consulted all business stakeholders to capture their expectations of a world-class customs organisation in November 2000. The views of business and labour were taken into account in building the SARS Customs strategic plan.

Other meetings have been with individual organisations including:

- South African Association of Freight Forwarders (SAAFF)
- Road Freight Association
- Customs Law Enforcement Task Group (CLETG)
- South African Chamber of Business (SACOB)
- Clothing Federation (Clofed)
- Textile Federation (Texfed)
- South African Clothing and Textile Workers Union (SACTWU)

48

This has resulted in a closer Customs/Business and Customs/Labour Partnerships. We plan to conclude formal mutual assistance agreements with national, regional, and international stakeholders in the next financial year.

### Government Departments

Co-operation with government departments whose mandates have a direct impact on customs administration was also improved. Despite many hitches the regular contacts with the Border Police Division of the South African Police have been maintained. There has also been closer co-operation with the Department of Trade and Industry in the development of trade policy, especially its translation into administration, and therefore customs policy. Without a mechanism for regular contact already in place, co-operation with the Department of Home Affairs has been erratic, especially during the interregnum between the phasing out of the National Crime Prevention Strategy (NCPS) on the one hand, and the Justice, Crime Prevention and Security Cabinet and Director-Generals' Clusters (JCPS), on the other. This latter period has been disruptive to the collective approach on border control established by the Cabinet in 1997.

### Other Customs Administrations – Institutions

SARS actively participated in the meetings of all the SACU, SADC, and WCO taking place in the region. It also took the initiative to organise the Regional Heads of Customs Administration Summit attended by nine countries in November 2000. This has laid a firm basis for regional co-operation in customs administration that is critical for the successful implementation of regional and bilateral trade agreements. SARS and the Zambia Revenue Authority were also appointed as the regional representatives in the Ad Hoc Committee on the Reform of the World Customs Organisation structures.



## Other Customs Administrations – Bilateral

The objective here is to effectively manage our relationships with external stakeholders, especially the customs administrations of our major trading partners, the Southern African Customs Union, the Southern African Development Community, and the World Customs Organisation.

Negotiations to conclude Memoranda of Understanding with Mozambique, Malawi, Zimbabwe, and Zambia are at an advanced stage. Internal preparations have also been made to raise the level of co-operation among customs administrations in the Common Customs Area.

## OPERATIONAL HIGHLIGHTS (2000-2001)

The Customs Mobile Unit was established to co-ordinate the enforcement initiatives with the various Customs branches and other SARS divisions. High-risk areas were identified and special initiatives were conducted nationally targeting these high-risk areas.

### Special Enforcement Actions

The Customs Mobile Unit (still in its infancy) conducted office inspections and benchmarking operations at the following ports:

- Kopfontein (September 2000)
- Lebombo (October 2000)
- Johannesburg International Airport (November 2000, March 2001)

These operations have helped to identify lapses in operational controls, improve management and also to re-establish best practice procedures at the relevant ports. The results have been used in messages to the whole organisation to promote the application of best practice across the organisation.

The Unit also conducted joint operations with other divisions and government departments including, Compliance and Collections, SAPS, NDPP, DTI, SABS on the following:

- Bonded Warehouses;
- Electronic industry;
- Johannesburg Customs and Excise Office;
- The clothing, textile and footwear industry; and
- The motor industry.

This resulted in higher levels of compliance in these industries. It also identified methods of corruption and resulted in various cases now being investigated by the SARS Anti-Corruption Unit.

## DRUG SEIZURES

A number of drug seizures were made at various Customs entry points. Some significant captures include:

The capture of "Methaqualone", used for the manufacturing of Mandrax and with a street value of R200 million, was seized at the Johannesburg Customs Office;

Said to be the biggest bust in the Southern Hemisphere, 11 tons of Hashish – disguised as milk powder and with a street value of R1 billion – was intercepted jointly by SARS and the SAPS;

Cannabis with a street value of R3,6 million was seized at border posts between South Africa and Swaziland;

Other various illegal substances, such as cocaine and heroin, with a street value of R4,5 million were intercepted at Johannesburg International Airport; and

1,177 million Mandrax tablets with a street value of R40 million were seized at the Durban Port. The tablets were concealed in teddy bears.

Recognising that these seizures are but a tip of the iceberg, the magnitudes demonstrate the extent to which the country has become a target for illegal traffickers, and the critical role customs plays in protecting the public in this regard.

50

## REVIEW OF CUSTOMS RULINGS

A formal Customs Appeal Process has been established which allows clients to appeal against penalties imposed or any other Customs practice they feel negatively influences their business position. This area will be receiving more attention in the coming year and will also be aligned more closely with the SARS dispute resolution mechanism. However, a number of cases have been successfully concluded using the new approach.

## POST CLEARANCE AUDITS

With the piloting of the teaming project and the introduction of the Customs performance management system, the practice of post-clearance audits has been reactivated as a critical aspect of customs control. This not only enhances the facilitation of legitimate trade but also ensures higher levels of compliance.

## RISK-BASED AND INTELLIGENCE-LED EXAMINATIONS

The initial activities have resulted in collective and simultaneous action against companies identified as high risk at all ports of entry. The aim is to increase the rate of these examinations to international best practice by the end of the coming financial year.

## CONTROL OVER EXPORTS

The neglect of non-revenue generating export controls has been stopped with the attendant containment of customs fraud in this area through such practices as ghost exports and fraudulent VAT refund claims.

Greater attention has also been given to enhanced administration of the Motor Industry Development Programme (MIDP) under which approximately R11 billion worth of Import Rebate Credit Certificate (IRCC) were issued.

The division also initiated closer co-operation with the Department of Trade and Industry leading to improved controls of Duty Credit Certificates, long a source of unhappiness in the clothing and textiles and footwear industries. The importance of the measures in this area is demonstrated by the fact that the value of these certificates issued during the year under review was over R125 million. The Customs Mobile Unit detected fraudulent use of these certificates to the value of R12,5 million. A debt of this amount has been raised and a provisional payment of R6 million has been made.

These large values clearly indicate that a higher level of control and compliance will be required to administer these trade programmes.

#### ADMINISTRATION OF FREE TRADE AGREEMENTS

During the year in review, SARS Customs implemented the SA-EU Agreement, SADC Protocol on Trade and the African Growth and Opportunity Act (AGOA).

Preparations for the implementation of the SADC Protocol on Trade were successfully completed. Trade under this Protocol should increase substantially thus causing a strain on the current customs control resources. Both business and labour have already expressed serious concerns about the potentially negative impact on the national economy and on the country's attempt to create employment. SARS takes its responsibility in this regard very seriously and this report outlines measures to ensure that national objectives are attained.

The SA-EU Agreement has also been successfully implemented. Trade between South African and Europe is significantly increasing.

The division introduced the measures required for country qualification under the AGOA Act which were examined by US Customs and found to be of high standard. Both business and labour have commended SARS for the timeous implementation of the AGOA. The last month of the financial year started to see exports to the United States of America under the AGOA dispensation.

SARS developed the required legislation, policies and procedures, together with the administrative and information technology systems to successfully implement the above trade protocols. Customs was further required to implement the systems and train the Customs officers so that the trade protocols could be implemented and maintained.

SARS also began the investigation and formulation of the relevant customs policy and procedures for the planned establishment of industrial development zones (IDZ). The model for regulating the IDZ's will require assessing the potential of fraudulent activities and abuse, considering the various trade incentives and agreements.

As new trade agreements and incentives are finalised by the Department of Trade and Industry, SARS Customs will be required to establish, implement and maintain them. This will continue to place further burdens on the already limited resources available to Customs.

## SERVICE IMPROVEMENT

Client service desks were set up at all the larger Customs offices and others are being set up. The establishment of the Head Office Client Service Department has led to improving turnaround times of responses to client queries and complaints.

## TOURIST CONTROL

A passenger risk profiling system was developed and the use of pre-arrival information enables Customs to gather information prior to the arrival of passengers. This technique has led to greater travel facilitation, while intelligently leading to higher detection of Customs violations. This has also underlined the need for greater co-ordination among the government departments responsible for key functions in border control.

## INTERNATIONAL BENCHMARKING

Customs administrations on a global level are facing or have faced challenges similar to those we are facing. Major strides have been taken to benchmark us against those of developed or developing countries. Visits have already been made to countries such as the UK, Canada, USA, and the UAE to bring back ideas for possible implementation.

52

Customs are also making use of experts from international administrations in an advisory capacity with a view to speeding up the Customs reform and modernisation process.

Accession to the Revised Kyoto Convention – on the Simplification, Harmonisation and Standardisation of Customs Procedures

The division has fully investigated the administrative and legal implications for accession to this convention. An internal seminar and a WCO seminar for the Customs Union were also hosted by SARS. Accession to the Kyoto Convention is being considered.

## E-BUSINESS

Like many businesses, local and global, SARS is making significant technology advancements. In customs this covers, among other, the following areas:

- Electronic Release Information;
- Import Permits;
- Load and Discharge Reports;
- Gate-in and Gate-out Reports;
- CCA1 Declarations;
- Exports;
- Tariff Amendments; and
- CAPE (Customs Automated Processing of Entries) Roll-Out at Small Ports.

Much progress has been made in the year under review to complete the preparatory work for the full implementation of the above systems. We expect this to be achieved in the first half of the financial year 2001/02.

#### OPERATIONAL STATISTICS

The following tables highlight the growing volumes of trade in 1999 and 2000.

Total value of imports and exports fiscal years:

JANUARY 1999 to DECEMBER 1999		JANUARY 2000 to DECEMBER 2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
R146 328 304 395	R165 645 022 029	R186 476 474 495	R210 512 684 657

Total number of transactions:

1999		2000	
IMPORTS	EXPORTS	IMPORTS	EXPORTS
1 433 994	1 129 307	1 462 611	1 152 884

Total value of SADC imports and exports calendar year 2000

IMPORTS	EXPORTS
R2 184 581 755	R24 107 849 185

Total value of European Union imports and exports calendar year 2000

IMPORTS	EXPORTS
R67 166 176 382	R57 934 546 342

## OPERATIONAL POLICY CHANGES

SARS Customs has initiated processes that will result in policy changes, bringing an improvement in client service and an enhancement to Customs controls. These include:

- Verification of consignments at the first port of entry
- Control of Rail consignments;
- Control of international mail;
- Administration of trade and industrial programmes;
- Legislative changes to enable e-Customs;
- Registration of licensing of customs traders and agents;
- Fee structure for customs supervision, rentals and other services;
- One-stop processing of border control formalities;
- Transit consignments – timing, routes, controls; and
- Temporary storage of goods prior to clearance (transit sheds, container depots).

54

## LITIGATION

### DISPUTE RESOLUTION

It has been decided that SARS should develop the capacity to resolve as many as possible tax disputes without recourse to litigation. Hence a Dispute Resolution Unit that will provide an alternative mechanism for resolving tax disputes (vis-à-vis litigation in the Income Tax Special Court) is being implemented. During the past year the Unit already resolved, for example, the tax treatment of banks' so-called "properties in possession" and disputes pertaining to "restraint of trade" payments received by professional sports persons.

The intention is to aggressively build the Unit's capacity over the next year. Although a core unit is already functioning at a Head Office level, it is the intention to roll the facility out to most of SARS's major branch offices.

### APPEALS

It remains however impossible to settle all cases out of court and the following is a reflection of the outcome of tax cases heard in the courts at the different levels:



## SPECIAL COURT

	2000	2001
Appeals won	22	21
Appeals lost	22	16
Cases withdrawn	51	36
Cases postponed	15	33
Cases conceded	10	15
Cases settled	14	21
Referred back	5	9
Awaiting judgment	-	4
<b>TOTAL</b>	<b>139</b>	<b>155</b>

## High and Constitutional Court

### Revenue

SARS was involved in 25 matters in the High Courts and Supreme Court of Appeal. In 12 cases SARS was successful and in 13 cases not so.

One of the cases lost by SARS in the High Court was the one of a listed company concerning the constitutionality of certain provisions of the VAT Act. However, on referral to the Constitutional Court the latter found in SARS's favour on most of the arguments advanced by SARS.

Customs	
Cases currently pending.	82
Cases pending before Constitutional Court	1
Cases pending before Supreme Court of Appeal	7
Cases settled	11
Cases successfully defended	31
Cases lost	6
<b>Total</b>	<b>138</b>



## SARS SUPPORT SERVICES

---

*The vision of the Support Services is to be a strategic partner to core business by anticipating and responding to divisional needs promptly.*

56



*The performance management system started with a three-day programme for all employees*

### HUMAN RESOURCES DIVISION

The Human Resources Division's vision is:

- to be a strategic partner to the core business;
- to anticipate and respond effectively to core business needs; and
- To position SARS as a preferred employer.

Key human resources objectives during the year under review were to:

- develop career ladders for core business job families;
- verify job descriptions used to re-grade jobs at SARS;
- implement a performance management system; and
- Introduce a new human resources management system.

A competency modelling approach was used to develop career ladders for job families in audit, customs, special investigations, collections and accounts maintenance, revenue administration, and law administration. This exercise was undertaken in partnership with the two trade unions recognised by SARS.

Discrete levels of complexity were defined for each job family, and the inputs and outputs required of employees at these various levels were identified. After a process of consultation with individual employees, more than 8 500 members of staff were positioned on career ladders.

During the coming year, career ladders will be developed for support service staff and existing career ladders will be modified to reflect changes to work organisation resulting from Siyakha.

The career ladder positioning exercise was undertaken in tandem with a process to verify grades assigned to SARS jobs as a result of the introduction of a new job evaluation system, which was accompanied by a reduction in the number of levels in the organisation. The new grading system has proved controversial. Widely divergent methods of work organisation in SARS offices (which will be corrected by the Siyakha project) meant that a sample of 600 jobs used to assign new grades was not representative. As a result, a project was initiated with the involvement of the trade unions to verify job descriptions for all staff. It was completed in November last year. Appeals against the findings by some employees will be considered in the first quarter of the next financial year.

The rollout of the SARS performance management system started with a three-day training programme for all employees. Implementation of the system was uneven because it was not supported by all managers, and because of a lack of standardised performance measures in parts of the business. A clear business plan, coupled with the introduction of uniform metrics, should see the system operating more successfully during 2001/2002.

As an interim measure, superior performance was acknowledged by rewarding employees who made significant contributions to SARS's goals. A total of 318 staff members were acknowledged in this way, as were eight branch offices.

In addition, a six percent bonus was paid to employees for achieving the stretch revenue collection target of R200 billion for the previous financial year.

Implementation of phase two of the PeopleSoft human resources management system (which replaced Persal) was completed successfully on schedule and within budget. This was a complex, demanding project involving considerable risk. In addition to a payroll upgrade, new modules were introduced to manage employment equity, position management, training administration, recruitment and employee relations. Phase three of the project, which will deliver additional functionalities such as competency management, will be undertaken in 2001/2002.

## RECRUITMENT

There were 10 823 employees on the SARS payroll at the end of March 2001, which is 333 more than a year ago, but almost 1 000 fewer than in March 1998. The staff turnover rate was six percent, which is substantially lower than the national average of 13 percent. However, poaching of audit staff by the private sector remains a source of concern.

Several major recruitment projects were undertaken with the help of a panel of employment agencies established through a tendering process. They included 37 appointments to facilitate proper implementation of rules of origin clauses in trade protocols, and the recruitment of more than 100 auditors countrywide, most of them black. In March 2001, SARS embarked on a project to recruit about 600 employees using innovative internet-based selection methods and sub-contracting arrangements. They will be engaged on fixed-term contracts to help SARS attain its tough revenue collection targets for 2001/2002.

The redeployment of Bisho staff to the East London office, and of Umlazi employees to Durban, was effected after consultation with the trade unions.

## EMPLOYMENT EQUITY

SARS is proud of progress made in promoting demographic representivity, notwithstanding an overall decline in employee numbers. Between March 1998 and March 2001, the staff complement shrank by 8 percent to 10 823. Of the 308 employees hired in 2000/2001, 81 percent were black and 46% were women.

Percentage of black employees at various organisational levels:

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

58

During the same period, the percentage of female staff remained constant at 68 percent. However, the percentage of women in management jobs doubled, reaching 24 percent.

Implementation of Siyakha will be accompanied by the setting of new employment equity targets, which will be reflected in SARS's 2001 report to the Department of Labour.

A leadership development programme has been used to identify and groom talented black employees within the organisation. During 2000, 22 employees selected for this programme were "fast-tracked". More than 1 200 employees applied for phase two of the programme, and participated in an initial screening process. Successful candidates are now completing a battery of assessments, and it is expected that more than 100 employees will be eligible for fast tracking.

## TRAINING AND DEVELOPMENT

The past year has seen the groundwork laid for a new approach to competency acquisition at SARS. A new vision and strategy were developed, and preparatory work on a proposed corporate university for SARS won the approval of the Executive Committee. The year ahead will see a number of plans coming to fruition, including:

- partnerships with the Association of Chartered Certified Accountants (ACCA) and the tax departments of several universities, aimed at bolstering SARS's audit capacity;
- the introduction of a combination of new learning methodologies, such as distance learning (including live interactive video broadcasts) and structured on-the-job training;
- accreditation of the SARS auditor learnership by the South African Qualifications Authority; and
- the launch of a Southern African Tax Institute by Harvard University in association with SARS and various other institutions.

During 2000/2001:

- bursaries worth R4,8 million were allocated to 717 employees;
- 819 members of staff were enrolled for the Rand Afrikaans University tax certificate programmes;
- 45 "high potential" employees and branch managers successfully completed year one of the Open University MBA programme;
- a total of 867 internal training interventions attracted 10 214 participants;
- a data base on the skills profile of SARS employees was compiled;

- labour relations training for managers and shop stewards was presented countrywide;
- training material was published on the SARS Intranet;
- courses were developed and presented on collections policies and procedures, taxpayer service, auditing, and change management;
- SARS joined a consortium of South African organisations which participate in an annual executive development programme presented locally by the top European management school, INSEAD; and
- about 20 employees attended a 10-day auditing course presented by officials from the German tax administration.

## COLLECTIVE BARGAINING

The year under review witnessed intensive rounds of discussions with the two trade unions recognised by SARS: the Public Servants' Association (PSA), and the National Education, Health and Allied Workers' Union (NEHAWU).

A framework agreement on the Siyakha project was reached with both unions, who attended a media briefing with the Minister of Finance to launch the project. By March 2001, in-principle agreement had been reached on a detailed plan to regulate Siyakha-related staff movements. Union representatives participated in road shows where staff was briefed on progress.

Wage negotiations were more adversarial. However, industrial action was averted when an agreement was reached at the eleventh hour.

## DISCIPLINE

SARS's zero tolerance approach to dishonesty, coupled with a robust response to misconduct, resulted in 88 dismissals (compared with 44 the previous year and 28 in 1998/1999). Case turnaround times improved with the introduction of a new disciplinary procedure.



*Cash Hall Vereeniging*

## FINANCE DIVISION

The Finance Division is committed to being a strategic partner to the core business and to anticipating and responding appropriately and promptly to core business needs. The division aims to provide effective and efficient financial support to SARS, and to contribute to realising SARS's vision and strategic objectives.

Sweeping changes were introduced in March 2000 with the appointment of a new General Manager: Finance. The short-term focus was to get the basics right, improve customer service, and build capacity to meet the challenges facing SARS.

The division's strategic goals are:

- To strengthen the expenditure budget process, ensuring ownership and accountability on the part of managers;
- To ensure compliance with the Public Finance Management Act and, where practical, Generally Accepted Accounting Practice;
- To achieve complete records of assets and liabilities, and income and expenditure;





*Training Team*

- To pro-actively and effectively manage cash resources;
- To ensure that financial policy, procedures and controls are formulated or formalised, documented and implemented throughout SARS;
- To ensure that the Finance Division's computer systems and business processes are in line with SARS' new business structure and decentralisation programme;
- To provide appropriate management information; and
- To liaise effectively with the Auditor-General's office and follow up timeously on matters raised.

## SARS OWN ACCOUNTS

Key achievements were recorded in the following areas:

- Ownership and accountability for the expenditure budget process now resides with the respective General Managers.
- Strong expenditure and cash resources control was enforced throughout the year.
- Staff morale has improved, and there is a new commitment to delivery.
- Accounting policies and procedures were formulated, and implemented in December 2000.
- The registry function was re-organised to facilitate document retrieval.



- A physical count of fixed assets nationally was completed in January 2001.
- Controls over electronic transfer payments were significantly improved with new software.
- An asset register, including valuations, was compiled.
- Accounting disciplines were introduced. Proper month-end cut-off procedures have made meaningful month-end reconciliation possible.
- SARS Own Accounts is fully GAAP compliant.

### SARS ADMINISTERED REVENUE

Individual bank accounts for all SARS offices were opened during the financial year. This simplifies the identification of entries, follow up and clearing. Cash management systems have been introduced at most SARS offices, and updated bank statement information is now available on a daily basis to each office. This facilitates instant follow up and clearing of entries.

The first phase of an integrated financial management system was implemented on 2 April 2001. This revenue accounting system will replace manual processes and an outdated accounting system. Interfaces will be built into the different core tax systems, which allow for daily reconciliation of information on collections and refunds.

A revenue balancing project has been mobilised to address the reconciliation of net cash received as reflected in the bank and accounting records on the one hand, and on individual taxpayer records in the core tax systems on the other.

New policies and procedures were implemented in March 2001 to ensure accuracy and completeness of data in the core tax systems and the revenue accounting records. In addition, a unit was established to re-focus the reconciliation process.

The previously unidentified difference of R417 million between the revenue accounting records and the new income tax system had been reduced to R77, 7 million as at 31 March 2000. Branch offices accounting for this difference have been identified and the matter is being investigated.

SARS, the Auditor-General and the National Treasury are collaborating to reach agreement on the definition of cash accounting for the annual financial statements at 31 March 2001 and to agree on the migration plan per tax type for progressive application of GAAP. SARS is confident this agreement will be reached prior to finalisation of the annual financial statements for 2000/2001.

### PFMA

SARS started implementing a PFMA action plan in August 2000, and aims to comply fully with the Act's requirements by the end of 2002/2003. The plan provides for assessment of existing policies, procedures and systems, as well as training programmes.

### LIAISON WITH THE AUDITOR-GENERAL

Significant strides have been made in building a more effective working relationship with the Auditor-General. This has been achieved via pro-active discussion of risks and audit observations, an understanding of the work of SARS Internal Audit, and clearly defined communication channels.

### TECHNOLOGY SERVICES DIVISION

The Technology Services Division supplies all information technology and technology-related services to SARS. Its mandate is to acquire and maintain services that support the business, in terms of service level agreements.

The division's main objectives in the year under review were to:

- provide an information service to the various business units;
- provide the necessary support infrastructure;
- provide an information technology framework to inform operational plans;
- achieve cost-effective application of information technology;
- maintain agreed levels of service; and
- deploy technology in unison with business objectives.

The division's key achievements during 2000/2001 are outlined below. (Other activities – especially development-related initiatives to support core business objectives – are recorded in earlier sections of this annual report.)

- Work started on creating a flexible information technology environment capable of accommodating rapidly changing business needs;
- The new income tax system (NITS) was handed over to the Technology Services Division after agreement was reached with the external service provider. The system was stabilised, and further functionalities were developed, including a data capturing system;
- System changes to give effect to tax policy announcements by the Minister of Finance proved a major challenge. These included changes to accommodate capital gains tax, taxation of foreign dividends, and new measures affecting small businesses. In addition, completely new systems were designed to manage the air passenger tax and

the diesel rebate system.

- Siyakha-related initiatives included the design of a new manifest system for Customs, and assistance with the e-filing project. Subsequently, an e-filing process led to the appointment of five vendors;
- Tenders were also awarded for revenue accounting and data warehouse systems after an initial design phase, and implementation is underway;
- A technology architecture for SARS was developed after extensive benchmarking and consultation. Security, data and application architectures were also finalised, paving the way for implementation of new product suites;
- A product was launched to determine how SARS would migrate seamlessly to the Windows 2000 product. Implementation is scheduled for next year;
- Technology Services has stepped up its involvement in the National Inter-departmental Structure (NIDS) on border control. This, coupled with the Siyakha programme, will necessitate the re-design of SARSNET;
- Some 65 system applications were supported and maintained with a down-time of only two percent;
- A document management system has been implemented, and populated with Technology Services policies, procedures, etc. The system forms a platform for information technology knowledge management;

The division's achievements were realised with a reduced budget, but without compromising the

service provided by its world class network infrastructure and processing centre;

A key challenge in the years ahead will be the migration towards the new architecture and processes, which is essential if enterprise applications are to be successfully integrated with external offerings. In addition, a virtual rewrite of legacy systems will probably be required to accommodate the new business requirements, and to ensure that the various applications speak to each other.

### INTERNAL AUDIT DIVISION

The SARS Advisory Board, The Commissioner and Exco members are responsible for establishing and updating business objectives and goals, implementing and maintaining cost-effective systems to ensure they are achieved, and establishing and maintaining an environment that fosters control and mitigates against fraud. The core function of the Internal Audit Division is to help management carry out these responsibilities effectively and swiftly.

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

In October 2000 SARS appointed a new head of Internal Audit who is charged with ensuring that adequate and effective internal controls are in place, and with improving corporate governance and risk processes.

Key services delivered by the Internal Audit Division during the year under review included:

- Development of an integrated risk management system and an audit plan;
- Adoption of an internal audit framework (COSO) which tracks and reports on internal



SARS Brochures

controls;

- Monthly feedback on audits conducted; and
- Inputs into the Siyakha programme on risk identification and management. The division will monitor the implementation of Siyakha, and conduct focused audits during the pilot to establish whether or not implementation controls require review.

Other initiatives undertaken by the division included:

- Assisting with implementation of the PFMA;
- Compiling an audit manual for the division;
- Facilitating co-ordination between Internal Audit and the Office of the Auditor-General; and
- Assisting with formulation of a framework for effective corporate governance.

A plan is in place to institutionalise integrated risk management processes within SARS. It provides for an Integrated Risk Advisory

Committee that reports to the Commissioner, as well as divisional committees.

## COMMUNICATIONS DIVISION

The Communications division is responsible for the dissemination of messages internally and externally. The division's mission is to strategically position the organisation through the implementation of focused and coherent communications strategies to help maximise revenue collection and broaden the tax base.

The division's key objectives are:

- To develop and implement a focused communications strategy to promote the organisation's initiatives;
- To build and promote a social dialogue and foster social partnerships with all stakeholders;
- To raise public awareness to effect rights and responsibilities and obligations that underpin effective implementation of policy and the administration of the law so as to meet delivery targets;
- To facilitate and promote the free flow of information in line with the Administration of Justice Act; and
- To foster and promote sound and healthy relations between the organization and all its target audience and target market;
- Managing change effectively by promoting Siyakha internally and externally; and
- To promote the organisation as an effective, people-centred institution promoting the ethos of service excellence and delivery.

Although lack of capacity put a huge strain on the division's ability to implement some of the projects, the component used a multi-pronged

strategy to reach out to the diverse and complex target audience by implementing a variety of programmes.

## MARKETING AND PUBLICITY

Siyakha, the main engine driving SARS' new re-engineering and transformation programme, was launched internally through the Senior National Management Forum. The flea market concept was used to graphically explain and bring alive the organisation's future mode of operations. Siyakha's impact on processes, people and systems was brought into the public domain through a media launch in Durban.

A multi-pronged approach was used for the Capital Gains Tax campaign. Adverts were placed in both the electronic and the print media in a campaign that ran for three months as the Bill was passed through the parliamentary process. International tax experts supported the campaign by bringing in a different perspective on the matter and contributing fruitfully to a debate that captured the nation's consciousness. Both the Minister and the Commissioner's frequent participation in key debates in Parliament, the electronic and print media further enhanced the campaign.

The Annual Report 1999/2000 was launched in March 2001 and managed to highlight and widely communicate the SARS's key achievements and challenges.

## TAXPAYER EDUCATION

Simple and punchy messages were used to raise awareness on tax and related matters through the use of innovative mediums to communicate complex topics. Electronic billboards at the Johannesburg International Airport and densely populated areas were used to advertise tax and other related matters. The SARS's Commissioner explained tax matters to the youth on a television





*SARS exhibition stand at the Rand Show*

programme reaching an estimated audience of between two to three million future taxpayers. Pull out pamphlets explaining tax matters were published and widely distributed.

In addition, the SARS mounted an awareness campaign by establishing temporary help desks in the various shopping malls in the cities, helping people with their income tax returns. The guidelines on the Skills Development Levy and the diesel fuel mixing leaflets and pamphlets were published during 2000/2001.

## EXHIBITIONS

Targeted marketing was launched with SARS participating in exhibitions and reaching millions of people in the process. SARS, with the co-operation of its regional offices, participated in

the following exhibitions:

- The Pietersburg Show, where SARS won a silver medal in the category, Public sector organisations;
- The Pretoria International Show;
- The Rand Show at Nasrec;
- The Rustenburg Show;
- The GCIS co-ordinated Soweto Community expo;
- The Skills development conference in Midrand; and
- The BDFM expo held at the Sandton Convention Centre;

## 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 building capacities further will be balanced with the need to introduce new technologies and keep abreast of the opportunities offered by e-commerce.*

66



*SARS is committed to providing a customer service that will maximise revenue collection*

SARS, having already jumped the hurdles of integrating Customs and Revenue and achieving administrative autonomy, is currently in the thick of implementing radical legislative reforms, core business process refinements and effective teamwork along with advancements in electronic filing of returns and payments. The following factors are now heightening the pressure for SARS to anticipate and lead change in South Africa over the next few years:

- The speed of information transfer and the increasing speed of economic transactions;
- The time compression of business cycles;
- The influence of interactivity, proliferation of the Internet and increased business transactions in the marketplace;
- The power and effectiveness of human and business networks locally and internationally;
- Opportunities for globalisation and the internationalisation of business activities, especially in the SADC region;

- Adoption of mass service customisation and market segmentation philosophies; and
- Collaboration between Business and society in providing essential services.

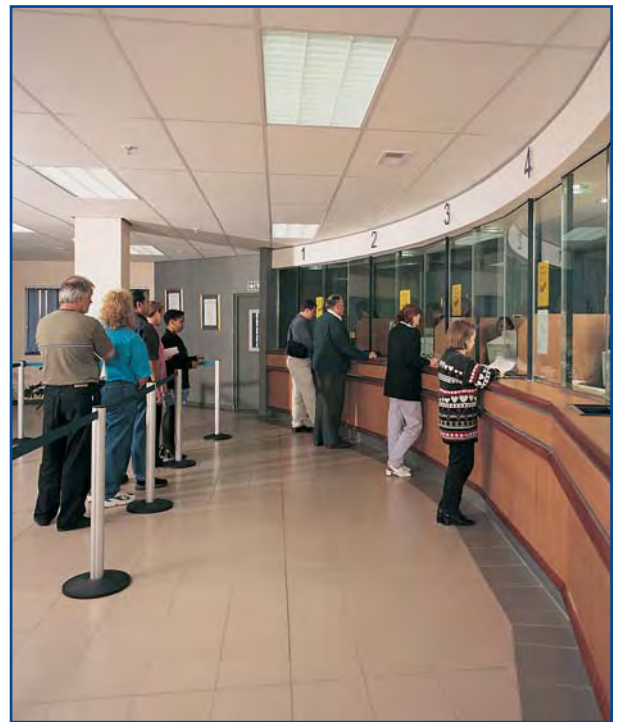
The SARS response to these dynamic variables will depend on how well we can plan on the move. The plans we forge for the next few years are crucial in determining how our organisation and nation moves up the development ladder. The current year's activities will deliver a SARS that has made tremendous operational improvements and achieved improved efficiencies.

The next phase of change that SARS need to plan for entails tighter business integration, establishing a robust management programme, introducing comprehensive operational policy and procedural reforms, building capacity and further organisational culture changes.

Pivotal to the success of this phase will be the creation of an adaptive business and technology architecture and exemplary leadership to support the planned changes. SARS will continue modernising services to address sophisticated taxpayer needs by developing a holistic view of the taxpayer and designing systems around meeting these requirements.

The last phase of this three-pronged change to be introduced in 2005 will involve embracing the technology-investment paradigm as opposed to the technology-cost paradigm. In other words, the value and use of technology will be escalated to a new level of importance. SARS will be e-business enabled and technology will play a pivotal role in delivering value and responsiveness to all stakeholders.

By this time, SARS will be in a position to leverage sufficient value from the sweating of its technological and human resources to thrust it forward into the next decade.



*Providing a high standard of client service*

On the finance front, the Division's key and specific objectives for 2001/2002 are

- To strengthen and ensure proper financial record keeping and enforce strong expenditure control and optimise SARS resources in collaboration with Executive Management;
- To provide, develop and enhance appropriate Management Information Services to facilitate decision-making;
- To ensure in the field of financial control that all reconciling items between revenue accounting records and tax systems are adequately explained and actioned; and to maintain ongoing evaluation of the adequacy of internal controls;
- To continue with the execution of the implementation of the PFMA plan.



- The Division will optimise existing funding resources, and exploit additional funding opportunities such as donor funding and mechanism of Private Public Partnerships; as well as securing appropriate funding to satisfy the business needs.
- It will also maintain timeous external reporting and provide appropriate reporting to relevant stakeholders.
- Procurement lead times will be reduced to an acceptable level, and a sound, cost efficient and timeous procurement service will be provided to SARS.

In the field of managing facilities the division will ensure that the changing business needs are timeously and economically catered for.

68

Financial modelling to facilitate decision-making in SARS will be implemented; and steps will be taken to improve the financial literacy in SARS. The focus will also be to provide proactive financial advice to facilitate innovation, and to strengthen the liaison and working relationship between SARS and the Auditor General.

Among the major targets for the next financial year are:

- The achievement exceeding of revenue target
- Raising the rate of customs examinations to five percent
- Accrediting 1000 customs traders and agents
- Inspecting and benchmarking operations in eight CMU offices
- Creating war-room to clear backlogs
- Recruitment, training, and deployment of an additional 350 customs officers.
- Full implementation of the Customs Dashboard



*SARS' Vereeniging Offices*

- Full implementation of the Quality Management System
- Compliance with the PFMA
- Zero Tolerance on internal corruption
- Customs service training for all managers
- A customs management development programme for all managers
- New training programmes for all personnel
- Upgrading of port infrastructure and facilities.

## REPORT OF THE COMMISSIONER ON THE FINANCIAL STATEMENTS

The South African Revenue Service is proud to present its Annual Financial Statements for the 2000/01 financial year.

### REVIEW OF OPERATIONS

The 2000/01 preliminary financial results of SARS, published in the Annual Report issued in May 2001, have been updated to account for audit and other accounting adjustments which were considered necessary in the preparation of the statement of financial position, performance, and cash flows for the year then ended. The May 2001 Annual Report may be found on pages 1 to 68.

The table below summarises the changes in SARS's financial results to that previously reported.

Source of Revenue	Preliminary Results (R'000)	Audited Results (R'000)
Income TAX	126 336 337	126 145 239
Value Added TAX	54 549 276	54 455 193
Customs Duties	7 843 609	7 853 604
Fuel Levy	14 495 289	14 495 289
Excise Duties	9 773 860	9 820 478
Others (Note 1)	6 599 391	6 215 057
<b>Total SARS Revenue</b>	<b>219 597 762</b>	<b>218 984 860</b>
Departmental Revenue (Note 2)	5 548 822	5 629 999
	225 146 584	224 614 859
Less SACU Payment	8 396 000	8 396 058
<b>Total National Revenue</b>	<b>216 750 584</b>	<b>216 218 801</b>

Note 1: Comprising other taxes, air passenger tax, ordinary levy, import surcharge, miscellaneous revenue, and mining leases and ownership as disclosed in the audited statement of financial performance.

Note 2: Comprising skills development levy, departmental receipts, and provisional administration receipts as disclosed in the audited statement of financial performance.

The difference between preliminary and audited National Revenue is attributed to the movement of uncashed cheques and final audit adjustments.

The preliminary results reflected above comprise actual monies transferred to Government and therefore do not account for the movement of uncashed refund cheques. Uncashed refund cheques represent an expected outflow of monies to Government and are reflected as a liability in SARS's audited statement of financial position.

Audit adjustments comprise the write-off of dishonoured cheques and potential cheque frauds (R126 341 000), and the write-back of stale (R67 641 682) and dishonoured cheques (R28 439 457). These adjustments resulted in a net reduction in National Revenue of R87 138 775 and are included within departmental activities in the statement of financial performance.

Other miscellaneous adjustments included adjustments in respect of VAT and Income Tax refunds amounting to R5 501 660 and reallocation between tax types.

## SUBMISSION OF SARS'S FINANCIAL STATEMENTS

In terms of section 55 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), SARS is required to prepare its financial statements and submit them to the Auditor-General and the National Treasury within two months of the financial year end. The audited financial statements must be submitted to the National Treasury and the Minister of Finance by 31 August 2001.

70

SARS's financial statements in respect of Own Accounts were submitted as prescribed by the PFMA. A number of key factors, however, influenced the preparation and finalisation of SARS's financial statements in respect of Administered Revenue. Although the basis of accounting for SARS's Own Accounts remained unchanged and continue to be accounted for on the accrual basis in accordance with generally accepted accounting practice, significant changes were made to the basis of accounting in respect of SARS's Administered Revenue.

Due to the absence of definitive norms and standards in complying with generally accepted accounting practice and the difficulties expressed below, SARS engaged the National Treasury and the Auditor-General to reach agreement on the application of the cash basis of accounting in terms of generally recognised accounting practice. The lack of suitable regulations prescribing the application and definition of the cash basis of accounting for SARS necessitated the Minister of Finance prescribing appropriate regulations in terms of section 91(1) of the PFMA in the first instance, and secondly, an application for an extension for the submission of SARS's financial statements. The Minister of Finance granted an extension to 31 October 2001 for this purpose.

In order to facilitate the auditing process in the interim, financial statements in respect of Administered Revenue were prepared in terms of SARS's own definition of the cash basis of accounting and submitted to the Auditor-General for audit on 31 May 2001.

On 30 October 2001 the Minister of Finance, after consultation with the Auditor-General, promulgated the standards of generally recognised accounting practice. These standards apply in respect of the 2000/1, 2001/2, and 2002/3 financial years. This will allow SARS time to consolidate its financial accounting platform and further implement solutions to achieve an integrated financial management system.

Further extensions to 28 February 2002 were, however, necessary for application of the promulgated version of cash accounting and in order to resolve outstanding audit issues.

## FINANCIAL CONTROLS

### Own Accounts

SARS has received an unqualified audit opinion from the Auditor-General in respect of its Own Accounts for the 2000/01 financial year. This audit opinion follows three successive disclaimers of audit opinion for the 1997/98 to 1999/00 financial years. This marks a significant shift to a greater emphasis on corporate governance and improvements in internal controls and accounting procedures. Significant achievements in this area include:

- the introduction and enforcement of improved policies and procedures over month-end and reconciliation procedures;
- increased controls over cash management and payments;
- improvements in registry and other administrative functions; and
- improvements in fixed asset maintenance and accounting.

71

### Administered Revenue

Although SARS received a qualified audit opinion in respect of Administered Revenue, significant inroads have been made with regard to the reconciliation between the banking records, accounting records, and the specific core tax systems.

The audit qualification relates to the perceived lack of controls within the assurance process, and is not a reflection of the appropriateness or otherwise of the underlying accounting records. Although SARS is still negatively affected by the ineffectiveness of legacy systems and the lack of integration between the Revenue Accounting and core tax systems, successes have been achieved in the following areas:

- The successful implementation of the first phase of the Integrated Financial Management System (IFMS) over the revenue accounting processes at Head Office level. Previously this process, including the maintenance of the general ledger, was almost entirely manual.
- The second phase of IFMS is in the planning phase. This phase, which deals with the automation of the cash book function at branch office level, will significantly improve the accounting and internal control processes within this area.

- The successful reconciliation of the accounting records to the various core tax systems. This follows the formation of a specialised accounting team dealing with the various reconciliation problems. These reconciliation problems, which are symptomatic of the lack of system integration, were the primary reason for the disclaimer of audit opinion for the last three financial years.

## CURRENT AND FUTURE BUSINESS ARCHITECTURE

The SARS transformation programme (Siyakha) fundamentally transforms processes and the related technologies. The business is currently in a transitional mode of operation whilst the transformation programme is being implemented. SARS management is totally and irrevocably committed to minimising all deficiencies within its systems and will ensure that the appropriate controls are embodied in the new processes and technologies.

In the meantime SARS will intensify the on-going drive of tightening existing controls.



72

PRAVIN GORDHAN

*Commissioner for the South African Revenue Service*

27 February 2002

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE  
ANNUAL FINANCIAL STATEMENTS  
INDEX

---

*The Financial Statements of the South African Revenue Service: Administered Revenue for the year ended 31 March 2001*

---

REPORT OF INDEPENDENT AUDITORS	74
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2001	79
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2001	80
STATEMENT OF CHANGE IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2001	81
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2001	82
NOTES TO THE FINANCIAL STATEMENTS	83

The annual financial statements were approved and signed by  
me in my capacity as Commissioner for SARS on  
1 February 2002



P.J. GORDHAN

Commissioner for the South African Revenue Service  
Pretoria, 01/02/2002

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

---

*The Financial Statements of the South African Revenue Service: Administered Revenue for the year ended 31 March 2001*

---

1	AUDIT ASSIGNMENT	75
2	REGULARITY AUDIT	75
2.1	NATURE AND SCOPE	75
2.1.1	FINANCIAL AUDIT	75
2.1.2	COMPLIANCE AUDIT	76
2.2	QUALIFICATION	76
2.2.1	FINANCIAL AUDIT	76
	ASSURANCE PROCESS	76
2.2.2	COMPLIANCE AUDIT	77
	TAX ADMINISTRATION	77
2.3	QUALIFIED AUDIT OPINION	77
2.3.1	FINANCIAL AUDIT	77
2.3.2	COMPLIANCE AUDIT	77
3.	EMPHASIS OF MATTER	77
3.1	CHANGE IN ACCOUNTING POLICY	77
3.2	TAX GAP	78
3.3	LATE SUBMISSION OF FINANCIAL STATEMENTS	78
3.4	ANNUAL REPORT	78
4.	APPRECIATION	78



## REPORT OF THE AUDITOR-GENERAL

---

*The Financial Statements of the South African Revenue Service: Administered Revenue for the year ended 31 March 2001*

---

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 79 to 89 for the year ended 31 March 2001, 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), section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) and section 58(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). 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 and the compliance with relevant laws and regulations, applicable to finance matters, based on the audit.

### 2. REGULARITY AUDIT

#### 2.1 Nature and Scope

##### 2.1.1 *Financial audit*

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

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

Due to the nature of the prescribed accounting practice, the audit was performed within a reporting framework, which does not at this stage necessarily result in fair presentation of the results of operations, financial position and cash flows of any period.

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.

#### 2.1.2 *Compliance audit*

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters and the collection of taxation. I believe that the audit provides a reasonable basis for my opinion.

## 2.2 **Qualification**

#### 2.2.1 *Financial audit*

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 completeness and accuracy of revenue.

#### *Assurance process*

- Previously, tax returns were edited/pre-assessed (i.e. checked for completeness and queries issued to some taxpayers) before being processed and assessments raised. This pre-assessment process was discontinued subsequent to the implementation of the New Income Tax System (NITS) and self-assessments. Cases were previously identified for audit in the pre-assessment phase, whereas currently they are allocated for audit, based on risk.

The new assurance process has, however, not yet been fully implemented in all SARS branch offices. As an interim measure, a Manual Risk Profiling approach, which relies on intelligence information gathered, as well as the knowledge and experience of SARS personnel, has been developed. The results of the system could only be verified at the Corporate Tax Centre, as it too has not been fully implemented at all branch offices.

- The major control ensuring that pay-as-you-earn (PAYE) deducted by employers is fully disclosed and received by SARS, is a performance of reconciliations of the IRP501 forms. Not all reconciliations have been performed for the year under review.
- Furthermore, I experienced difficulty in verifying some deductions against taxable income due to insufficient information on taxpayers' files.

### 2.2.2 Compliance audit

#### *Tax administration*

SARS is charged with the administration and collection of taxation and is directed by a considerable volume of complex legislation. Not only is SARS required to achieve its mandate within the ambit of this legislation, but it should also enforce those measures necessary to ensure that taxpayers comply with tax legislation, whether voluntarily or otherwise. My audit revealed certain inconsistencies in complying with tax legislation relating to Income Tax and Value Added Tax. 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.

### 2.3 Qualified Audit Opinion

#### 2.3.1 Financial audit

In my opinion, except for the effect on the financial statements of the matter referred to in paragraph 2.2.1 above, the financial statements fairly present, in all material respects, the financial position of SARS Administered Revenue at 31 March 2001 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice.

#### 2.3.2 Compliance audit

Based on the audit work performed, except for the matter referred to in paragraph 2.2.2, nothing has come to my attention that causes me to believe

that material non-compliance with laws and regulations, applicable to financial matters and taxation, has occurred.

### 3. EMPHASIS OF MATTER

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

#### 3.1 Change in accounting policy

The financial statements were prepared on the cash basis of accounting. This represents a change in the basis of accounting as SARS previously prepared the financial statements on the accrual 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. Approval was granted during October 2001 by the Minister to change to the cash basis of accounting as described in notes 1.2 and 1.3 of the accounting policy.

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. Some unaudited information on collection and debt management was, however, disclosed on pages 35 to 38 of the annual report of SARS for 2000/2001.

### 3.2 Tax gap

SARS acknowledges, in note 1.5 of the accounting policy, that their fiduciary responsibilities are affected by incidence of tax evasion and other breaches of taxation laws.

### 3.3 Late submission of financial statements

Section 55(1)(c)(i) of the PFMA requires financial statements to be submitted to the Auditor-General within two months (by 31 May) after the end of the financial year. The financial statements were signed by the accounting officer and submitted for audit purposes on 31 May 2001. These financial statements required changes to be acceptable for audit purposes and were handed back to the accounting officer to effect those changes. Subsequent to this, SARS requested and was granted various extensions by the Minister for the submission of the financial statements. The last extension granted was to 28 February 2002. This Office received the final set of signed financial statements on 1 February 2002.

### 3.4 Annual Report

Some of the information contained in the annual report of SARS for the 2000/2001 financial year, which was published soon after year-end, differs from information in the signed financial statements submitted for audit on 1 February 2002, as acknowledged and explained by the Commissioner in his report on the financial statements on page 69.

## 4. APPRECIATION

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



SA FAKIE  
*Auditor-General*  
PRETORIA  
21 February 2002

## SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2001

	Notes	2000-01 R'000	Restated 1999-00 R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	86,867	283,565
Other assets	3	18,490	101,750
<b>Total Assets</b>		<b>105,357</b>	<b>385,315</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>			
Accumulated administered assets		(682,054)	(258,195)
<b>Current liabilities</b>			
Bank		784,101	620,306
Other liabilities	4	3,310	23,204
<b>Total Net Assets and Liabilities</b>		<b>105,357</b>	<b>385,315</b>

## SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2001

	Notes	2000-01 R'000	Restated 1999-00 R'000
<b>REVENUES</b>		<b>224,614,859</b>	<b>205,114,760</b>
<b>Taxation</b>		<b>219,664,706</b>	<b>199,668,502</b>
Income tax	5	126,145,239	116,148,772
Value-added tax/Sales tax	6	54,455,193	48,376,840
Fuel levy		14,495,289	14,289,798
Excise duties		9,820,478	9,470,400
Customs duties		7,853,604	6,517,797
Other taxes	7	5,541,258	4,851,496
Skills development levy		1,257,432	51
Air passenger tax		85,780	-
Ordinary levy		10,387	12,979
Import surcharge		46	369
<b>Non-taxation</b>		<b>4,950,153</b>	<b>5,446,258</b>
Departmental receipts	8	4,329,888	5,079,250
Miscellaneous revenue	9	362,540	246,924
Mining leases and ownership		215,046	120,084
Provincial administration receipts	10	42,679	-
<b>Less:</b>			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	11	8,396,058	7,197,298
<b>NET REVENUE FOR THE YEAR</b>		<b>216,218,801</b>	<b>197,917,462</b>

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

STATEMENT OF CHANGE IN NET ASSETS

for the year ended 31 March 2001

	Notes	Restated 1999-00 R'000
<b>ACCUMULATED ADMINISTERED ASSETS</b>		
<b>Balance at 31 March 1999</b>		<b>25,316,565</b>
Prior year adjustment	12	(25,846,231)
<b>Restated balance at 31 March 1999</b>		<b>(529,666)</b>
Net gains and losses not recognised in the statement of financial performance		271,471
Transfer to the National Revenue Fund		(197,645,991)
Restated net revenue for the year		197,917,462
Net revenue for the year as previously reported		194,798,472
Effect of restatement of comparatives on income		3,118,990
<b>Restated balance at 31 March 2000</b>	12	<b>(258,195)</b>
Net gains and losses not recognised in the statement of financial performance		(423,859)
Transfer to the National Revenue Fund		(216,642,660)
Net revenue for the year		216,218,801
<b>Balance at 31 March 2001</b>		<b>(682,054)</b>



## SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

## CASH FLOW STATEMENT

for the year ended 31 March 2001

	Notes	2000-01 R'000	Restated 1999-00 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash received from operating activities</b>	13	<b>224,678,225</b>	<b>205,057,943</b>
Taxation		220,348,337	199,978,693
Non - taxation		4,329,888	5,079,250
<b>Cash transferred</b>		<b>(225,038,718)</b>	<b>(204,843,289)</b>
Payments in respect of Customs Union Agreement		(8,396,058)	(7,197,298)
Cash to National Revenue Fund		(216,642,660)	(197,645,991)
<b>Net cash (transferred)/retained from operations</b>		<b>(360,493)</b>	<b>214,654</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>(336,741)</b>	<b>(551,395)</b>
<b>Cash and cash equivalents at end of period</b>	14	<b>(697,234)</b>	<b>(336,741)</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 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. In terms hereof, approval was granted to SARS to apply the cash basis of accounting in terms of generally recognised accounting practice for the financial year ending 31 March 2001.

In terms of section 91(1) of the PFMA the Minister of Finance, after consultation with the Auditor-General, promulgated the standards of generally recognised accounting practice in terms of Government Notice No. R.1095 dated 30 October 2001. These standards apply, subject to the approval of the Accounting Standards Board, 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.

In terms of the PFMA read with the Exchequer Act, 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 Change in accounting policy

The change in accounting policy from the accrual to the cash basis of accounting has been disclosed in terms of accounting standard AC103. In terms hereof the cash basis of accounting has been applied retrospectively as an adjustment to the opening balance of accumulated assets. Comparatives have been adjusted in order to give effect to the new accounting policy.

#### 1.4 Revenue recognition

##### 1.4.1 *Definition of revenue*

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

##### 1.4.2 *Recognition of revenue*

Revenue is recognised on the cash basis when payments are received and banked.

South Africa is the administrator of the Southern African Customs Union Agreement. All revenue in respect of the Common Customs Union is included as revenue in the statement of financial performance.

#### 1.5 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.

#### 1.6 Cash and cash equivalents

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

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

	2000-01 R'000	Restated 1999-00 R'000
<b>2. Cash and cash equivalents</b>	<b>86,867</b>	<b>283,565</b>
Paymaster-General	82,641	224,511
Receiver of Revenue (cash on hand)	2,111	24,292
Main control account - Regional offices	2,115	34,762
<b>3. Other assets</b>	<b>18,490</b>	<b>101,750</b>
Outstanding debits	-	85,223
National Treasury	10,277	-
Postmaster-General	5,017	6,467
Postmaster-General (VAT)	2,394	2,109
Suspense	802	-
Provincial administration consolidated account	-	7,951
R10 277 000 represents an over transfer of monies by a bank to National Treasury.		
<b>4. Other liabilities</b>	<b>3,310</b>	<b>23,204</b>
State departments	40	-
Suspense	-	23,204
Provision for write-offs (refer note 18)	3,270	-
<b>5. Income tax</b>	<b>126,145,239</b>	<b>116,148,772</b>
Pay As You Earn	79,373,793	77,033,008
Persons, individuals and companies	37,520,342	30,635,403
Tax on retirement fund industry	5,219,756	5,330,429
Secondary tax on companies	4,031,348	3,149,932
<b>6. Value-added tax/Sales tax</b>	<b>54,455,193</b>	<b>48,376,840</b>
Value-added tax	54,454,905	48,374,687
Sales tax	288	2,153

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

	2000-01 R'000	Restated 1999-00 R'000
<b>7. Other taxes</b>	<b>5,541,258</b>	<b>4,851,496</b>
Transfer duties	2,401,894	1,821,635
Stamp duty	1,532,559	1,593,103
Marketable securities tax	1,102,149	1,090,404
Estate duty	442,696	304,154
Donations tax	32,091	15,248
Master fees	29,009	25,801
Levy on financial services	884	1,067
Non resident shareholders tax	(24)	84
<b>8. Departmental receipts</b>	<b>4,329,888</b>	<b>5,079,250</b>
Departmental activities	3,492,447	4,204,403
Interest and dividends	384,331	394,297
Rental of state property	142,892	141,518
Fines & forfeitures	113,807	110,978
Recovery of loans and advances	112,274	74,088
Levies	74,133	112,278
Sale of state owned land	10,004	41,688
<p>Departmental activities includes 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. This amount also includes write-offs in the current year amounting to R126 341 000 in respect of dishonoured cheques and other debits relating to the period 1987 to 1998 which are considered irrecoverable (R98 171 000) and potential cheque frauds as identified by the Income Tax and VAT systems (R28 169 000).</p>		
<b>9. Miscellaneous revenue</b>	<b>362,540</b>	<b>246,924</b>
Customs and excise miscellaneous revenue	361,050	245,790
Revenue in respect of other departments	1,490	1,134

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

	2000-01 R'000	Restated 1999-00 R'000
<b>10. Provincial administration receipts</b>	42,679	-
Provincial administration consolidated account	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	17,673,643	15,998,197
Botswana	219,957	220,945
Namibia	180,252	235,495
Lesotho	64,268	53,751
Swaziland	54,870	33,190
Sub-total	519,347	543,381
South Africa	17,154,296	15,454,816
Received from the Common Customs Pool	17,673,643	15,998,197
Botswana	2,986,361	2,551,972
Namibia	2,877,323	2,240,743
Swaziland	1,406,229	1,221,480
Lesotho	1,126,145	1,183,103
Sub-total	8,396,058	7,197,298
South Africa	9,277,585	8,800,899

**12. Change in accounting policy**

During the year SARS changed its accounting policy from the accrual to the cash basis of accounting.

Application of the new policy resulted in an overall decrease in accumulated assets at the beginning of the year of R22 727 241 000 which has been shown in the statement of performance by way of restatement of the results of the 2000 financial year of R3 118 990 000 as an increase to revenue, with the balance of R25 846 231 000 relating to years prior to 2000, shown separately on the face of the statement of change in net assets as a reduction to revenue.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

	2000-01 R'000	Restated 1999-00 R'000
The effect of the change in accounting policy on accumulated assets at the beginning of the year is as follows:		
Accumulated assets as previously reported	25,316,565	
Prior year adjustment relating to years prior to 2000	(25,846,231)	
Restatement of 2000 results	271,471	
Accumulated assets as currently reported	<u>(258 195)</u>	
<b>13. Reconciliation of net revenue for the year</b>		
<b>to total cash received</b>		
Net revenue for the year	216,218,801	197,917,462
Adjusted for		
Payments in terms of Customs Union Agreement	8,396,058	7,197,298
Decrease / (Increase) in other assets	83,260	(35,884)
Decrease in other liabilities	(19,894)	(20,933)
<b>Total cash received</b>	<u>224,678,225</u>	<u>205,057,943</u>
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents	(697,234)	(336,741)
Bank	86,867	283,565
	(784,101)	(620,306)
<b>15. Sureties</b>		
(i) Lien - Sanlam shares		
4 379 631 (7 405 430 - 1999-00) Sanlam shares with a market value of R40 391 504 (R61 539 124 - 1999-00) are held in respect of amounts owing by 6 063 (9 287 - 1999-00) taxpayers at 31 March 2001.		
(ii)Lien - Old Mutual shares		
4 522 400 (6 530 800 - 1999-00) Old Mutual shares with a market value of R75 750 200 (R100 900 860 - 1999-00) are held in respect of amounts owing by 6 604 (8 356 - 1999-00) taxpayers at 31 March 2001.		



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 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 are therefore managed by Own Accounts. An amount of R3 047 564 (R16 144 255 - 1999-00) 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 R466 181 292 (R718 995 098 - 1999-00) has been written off on or prior to 31 March 2001. Amounts still awaiting approval for write-off do not form part of actual write-offs.

Outstanding debits amounting to R98 171 000 (R85 223 000 - 1999-00) in the bank reconciliation have been written off during the current financial year. Such amounts are included in departmental activities in the statement of financial performance (refer note 8).

### 18. Provision for write-offs

Provision has been made for bank statement entries amounting to R3 270 000 which have not been accounted for by the VAT tax system. These entries relate to the reversal of VAT ACB rejections and have been treated as a deduction to VAT collections in the statement of financial performance.

### 19. Audit fees

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

### 20. Bank

Bank overdraft comprises cheques issued but not yet presented for payment and outstanding deposits.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
ANNUAL FINANCIAL STATEMENTS  
INDEX

---

*The Financial Statements of the South African Revenue Service: Own Accounts for the year ended 31 March 2001*

---

REPORT OF THE AUDITOR-GENERAL	91
BALANCE SHEET	95
INCOME STATEMENT	96
STATEMENT OF CHANGES IN CAPITAL AND RESERVES	97
CASH FLOW STATEMENT	98
NOTES TO THE FINANCIAL STATEMENTS	99

The annual financial statements set out on pages 95 to 108 were approved and signed on behalf of SARS' Executive Committee on 31 August 2001 by:



P.J. GORDHAN

Commissioner for the South African Revenue Service  
Pretoria, 31/08/2001

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
REPORT OF THE AUDITOR-GENERAL  
TABLE OF CONTENTS

---

*The Financial Statements of the South African Revenue Service: Own Accounts for the year ended 31 March 2001*

---

1	AUDIT ASSIGNMENT	92
2	REGULARITY AUDIT	92
2.1	NATURE AND SCOPE	92
2.1.1	FINANCIAL AUDIT	92
2.1.2	COMPLIANCE AUDIT	93
2.2	UNQUALIFIED AUDIT OPINION	93
2.2.1	FINANCIAL AUDIT	93
2.2.2	COMPLIANCE AUDIT	93
3.	EMPHASIS OF MATTER	93
3.1	INTERNAL CONTROL	93
3.1.1	ARREAR PAYMENTS	93
3.1.2	LEAVE RECORDS	94
3.2	COMPUTER AUDIT	95
4.	APPRECIATION	95

## REPORT OF THE AUDITOR-GENERAL

---

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 95 to 108 for the year ended 31 March 2001, 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 and the compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

### 2. REGULARITY AUDIT

#### 2.1 Nature and Scope

##### 2.1.1 *Financial audit*

The audit was conducted in accordance with generally accepted government auditing standards which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,

- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

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

#### 2.1.2 *Compliance audit*

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

### 2.2 **Unqualified Audit opinion**

#### 2.2.1 *Financial Audit*

In my opinion the financial statements fairly present, in all material respects, the financial position of SARS at 31 March 2001 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

#### 2.2.2 *Compliance Audit*

Based on the audit work performed, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

## 3. EMPHASIS OF MATTER

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

### 3.1 **Internal control**

Lack of controls in respect of personnel expenditure, the more significant of which are described below, was noted. The control environment weaknesses should be viewed in the context of significant changes in the human resources management systems, structures, policies and procedures including a new grading system.

#### 3.1.1 *Arrear payments*

During the year SARS paid its employees R70,5 million in respect of arrear salaries arising from the revised Hay grading system which was effective from 01 January 1999. This amount includes arrear amounts on the service bonus. As a revision to a grading system is not a frequent occurrence, these types of arrear payments are also infrequent. Due to the limitations of the personnel and salary system and the need to extract data from both the old and the new personnel and salary systems, the arrear payments were manually calculated on a spreadsheet, thereby exposing the process to error. Controls to ensure the accuracy of the manual calculations were lacking, inter alia, because supporting documentation was not readily available. The matter was discussed with SARS management and SARS acknowledged that they had already identified the problems and had initiated a review process in April 2001 to identify and adjust the errors. This review process is scheduled to be

completed by December 2001. An arrears payment functionality has subsequently been designed and implemented on the personnel and salary system.

#### 3.1.2 Leave Records

SARS experienced problems in the prior financial year in reconciling the leave records on the old personnel and salary system with the leave cards of individual staff members. A new human resource system was implemented in the present year. However, data relating to leave credit accumulated was imported on the new system without a proper validation of the data having been done. Furthermore, controls to ensure that all absenteeism has been accounted for were inadequate. This may impact the accuracy of the leave liability disclosed in note 14 to the financial statements and may increase the risk of leave paid out based on incomplete leave records. SARS has already started to address the matter by conducting an exhaustive review of leave records to ensure that the data is up to date and accurate.

#### 3.2 Computer audit

The general ledger system is an off-the-shelf package used for receivables, payables, bank reconciliation and general ledger accounting functions and reporting.

The key findings of the audit indicated that, while some controls were in place over the system, user and programmed control

weaknesses existed in the computerised environment. The major shortcomings related to VAT calculations for vendors, which did not agree with the physical invoices and the failure to keep input documentation of cancelled transactions. Furthermore, controls relating to journal entries were lacking.

In his comments dated 7 August 2001, the Commissioner referred to various corrective steps taken. The effectiveness of these steps will be evaluated in due course.

#### 4. APPRECIATION

SARS should be commended on the efforts taken by them to address the issues, that in the previous audit report led to the disclaimer of opinion. The assistance rendered by the staff and management of SARS during the audit is sincerely appreciated.



SA FAKIE

*Auditor-General*

PRETORIA

5 September 2001

## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

**BALANCE SHEET**

as at 31 March 2001

	Notes	2001 R'000	2000 Restated R'000
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>148,279</b>	<b>188,262</b>
Property, plant and equipment	9	113,367	188,262
Intangible assets	10	34,912	-
<b>Current assets</b>		<b>522,456</b>	<b>183,159</b>
Accounts receivable	11	46,446	179,337
Cash and cash equivalents	18	476,010	3,822
<b>Total assets</b>		<b>670,735</b>	<b>371,421</b>
<b>CAPITAL, RESERVES AND LIABILITIES</b>			
<b>Capital and reserves</b>		<b>377,790</b>	<b>103,778</b>
Asset revaluation reserve		48,302	48,302
Capital reserve on establishment		32,364	32,364
Accumulated surplus		297,124	23,112
<b>Current liabilities</b>		<b>292,945</b>	<b>267,643</b>
Trade and other payables	12	253,573	206,784
Provisions	13	39,372	60,859
<b>Total capital, reserves and liabilities</b>		<b>670,735</b>	<b>371,421</b>



## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

## INCOME STATEMENT

for the year ended 31 March 2001

	Notes	2001 R'000	2000 Restated R'000
<b>REVENUE</b>		<b>2,155,208</b>	<b>1,793,417</b>
Grant received	4	2,071,892	1,787,118
Donations		15,517	-
Interest received		23,950	3,660
Other revenue		43,849	2,639
<b>EXPENSES</b>		<b>1,922,542</b>	<b>1,906,308</b>
Administrative expenditure		353,280	328,766
Depreciation		112,934	85,473
Charge for the year		102,877	85,473
Underprovision - prior periods	9	10,057	-
Amortisation		16,403	-
Finance charges		2,830	2,721
Miscellaneous expenditure		2,891	2,573
Personnel expenditure		1,129,966	1,212,626
Professional and special services	5	304,238	266,148
Provision raised for unidentified items	11	-	8,001
<b>Net surplus (deficit) for the year</b>		<b>232,666</b>	<b>(112,891)</b>

## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

## STATEMENT OF CHANGES IN CAPITAL AND RESERVES

*for the year ended 31 March 2001*

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus (deficit) R'000	Total R'000
Balance at 31 March 1999	48,302	32,364	136,003	216,669
Net (deficit) for the year	-	-	(112,891)	(112,891)
Balance at 31 March 2000 previously reported	48,302	32,364	23,112	103,778
Capitalisation of intangible assets	-	-	41,346	41,346
Balance at 31 March 2000 restated	48,302	32,364	64,458	145,124
Net surplus for the year	-	-	232,666	232,666
Balance at 31 March 2001	48,302	32,364	297,124	377,790

## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

## CASH FLOW STATEMENT

for the year ended 31 March 2001

	Notes	2001 R'000	2000 Restated R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>520,196</b>	<b>57,897</b>
Net surplus (deficit) for the year		232,666	(112,891)
Adjustments for:			
Depreciation		112,934	85,473
Amortisation		16,403	-
Interest received		(23,950)	(3,660)
Finance charges		2,830	2,721
<b>Operating surplus (deficit) before working capital changes</b>		<b>340,883</b>	<b>(28,357)</b>
<b>Working capital changes</b>		<b>158,193</b>	<b>85,315</b>
Decrease in accounts receivable		132,891	231,042
Decrease in inventories		-	2,563
Increase/(Decrease) in accounts payable		25,302	(148,290)
<b>Cash generated from operations</b>		<b>499,076</b>	<b>56,958</b>
Interest received		23,950	3,660
Finance charges		(2,830)	(2,721)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(48,008)	(48,963)
<b>Increase in cash and cash equivalents</b>		<b>472,188</b>	<b>8,934</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>3,822</b>	<b>(5,112)</b>
<b>Cash and cash equivalents at end of year</b>	18	<b>476,010</b>	<b>3,822</b>

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

**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 7.

**2.4 Retirement benefit plans**

Current contributions on behalf of employees to the Government Employees Pension Fund, which is a defined benefit plan, are expensed. No provision is made for pension-related post-retirement benefits for employees as this is the responsibility of the Government.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
as at 31 March 2001

Refer to note 16 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.

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
Security equipment	5 years
Software (main frame)	
Purchased	3 years
In house developed	3 years
Software (personal computers)	3 years
Vehicles	5 years

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

**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. This is a new accounting policy which has been adopted in the current year and the transitional provisions of AC 129 have been applied.

**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.

Previously reported 2000 R'000	2000 Restated R'000
---	------------------------

**3. RESTATEMENT OF PRIOR YEAR FIGURES**

In the 2000 financial year, a provision in the Income Statement for unidentified entries included an amount of R46,8 million. These entries have subsequently been identified and allocated to the appropriate expense accounts. The restatement does not have any effect on the net deficit for the 2000 financial year.

Administrative expenditure	316,798	328,766
Personnel expenditure	1,177,726	1,212,626
Provision raised for unidentified items	54,869	8,001

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	2001 R'000	2000 Restated R'000
<b>4. GRANT RECEIVED</b>		
Government grant received	2,128,170	2,032,262
(Reversed) in 1999 in respect of incentive bonuses	-	(301,422)
(Reversed) Accrued in 2000 in respect of incentive bonuses	(56,278)	56,278
	2,071,892	1,787,118
<b>5. PROFESSIONAL AND SPECIAL SERVICES</b>	304,238	266,148
Professional and special services of R21,739,000 (2000 : R11,605,000) include costs for audit services provided by the Auditor-General.		
<b>6. IRREGULAR EXPENDITURE</b>		
The following amounts, included in the annual financial statements, constitute irregular expenditure in terms of section 1 of the Public Finance Management Act (Act 1 of 1999)		
a) Additional software purchased on contract	12	
b) Production of video tapes - Rand Easter Show	40	
c) Appointment of temporary secretary	130	
d) Purchase of hard disk	55	
e) Rental of photocopier	7	
f) Purchase of software - Timeline	80	
g) Rental of house as Official Quarters	4	
h) Appointment of training manager - MSL World-Wide	35	
i) Supply, installation and maintenance of PBX	556	
Total	919	6,211

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 FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	2001 R'000	2000 Restated R'000
<b>7. DONATIONS</b>		
SARS received the following donated benefits in kind:		
a) <b>USAID - United States Agency for International Development</b>	5,273	3,486
Short term advisors / consultants		
Alternate dispute resolution, audit, collections recovery, IT, special investigations and tax administration		
b) <b>Sida - Swedish International Development Agency</b>	5,649	2,500
Short term advisors		
Study visits		
Residential and non-residential training		
c) <b>AusAID - Australian Agency for International Development</b>	200	27
Short term advisor on Capital gains tax		
d) <b>DSE - German Foundation for International Development</b>	50	317
Training on audit technique and transfer pricing		
e) <b>H M Customs &amp; Excise</b>	-	499
Funding of HR consultant		
f) <b>French Trade Commission in S.A.</b>	-	72
Study visit to French Customs training school		
French Customs training expert to SARS		
Customs school expert to SARS		
g) <b>World Customs Organisation</b>	-	50
Trainer for course on Customs fraud		
<b>Total</b>	<b>11,172</b>	<b>6,951</b>

The above amounts were paid directly to the suppliers of the services.

No monies were directly received by SARS. Amounts have been converted at exchange rates ruling at the time.

**8. TAX STATUS**

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

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

## SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

## NOTES TO THE FINANCIAL STATEMENTS

as at 31 March 2001

	Computer equipment R'000	Computer software R'000	Furniture, fittings & office equipment R'000	Security equipment R'000	Motor vehicles R'000	Total R'000
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>						
<b>For the year ended 31 March 2001</b>						
<b>At cost or valuation</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Carrying amount - 31 March 2001</b>	<b>49,621</b>	<b>4,264</b>	<b>39,194</b>	<b>1,165</b>	<b>19,123</b>	<b>113,367</b>
<b>For the year ended 31 March 2000</b>						
<b>At cost or valuation</b>						
Opening balance - 31 March 1999	199,870	20,454	31,999	64	24,800	277,187
Additions	35,332	7,398	2,240	924	3,069	48,963
Closing balance - 31 March 2000	235,202	27,852	34,239	988	27,869	326,150
<b>Accumulated depreciation</b>						
Opening balance - 31 March 1999	41,743	3,409	2,530	8	4,725	52,415
Charge for the year	63,355	12,076	4,670	105	5,267	85,473
Closing balance - 31 March 2000	105,098	15,485	7,200	113	9,992	137,888
<b>Carrying amount - 31 March 2000</b>	<b>130,104</b>	<b>12,367</b>	<b>27,039</b>	<b>875</b>	<b>17,877</b>	<b>188,262</b>

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

A comprehensive fixed asset management project was initiated during the financial year to count, record and value all fixed assets nationally. The verification process was embarked on due to the absence of a comprehensive asset register and the difficulty in fairly valuing the acquisitions and identifying the existence of assets. The project was successfully completed and accounted for in the 2001 financial year.

The net devaluation of R10,057,000 resulting from the verification exercise, was attributable to an under estimation of depreciation in prior periods. The asset records were inadequate in prior periods and an estimate for depreciation was consequently used.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	Computer software R'000	Total R'000
<b>10. INTANGIBLE ASSETS</b>		
<b>At cost or valuation</b>		
Costs expensed previous years, now capitalised	46,514	46,514
Additions	9,969	9,969
Closing balance - 31 March 2001	56,483	56,483
<b>Accumulated amortisation</b>		
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
	-	-
<b>Carrying amount - 31 March 2001</b>	<b>34,912</b>	<b>34,912</b>

The net effect of R41,346,000 (being R46,514,000 - R5,168,000) is a result of the fact that in the previous years, inadequate records had been kept and development costs had been expensed in the income statement. As from the current year AC 129 was adopted and these development costs were identified and capitalized.

	2001 R'000	2000 Restated R'000
<b>11. ACCOUNTS RECEIVABLE</b>		
Staff accounts receivable	9,378	5,611
Less provisions	3,166	2,395
	6,212	3,216
<b>Suspense account</b>		
Unsubstantiated items	-	8,001
Less provision	-	8,001
	-	-
Government departments	39,161	175,792
Refundable deposits	329	329
Other receivables	744	-
	40,234	176,121
<b>Total</b>	<b>46,446</b>	<b>179,337</b>

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	2001 R'000	2000 Restated R'000
<b>12. TRADE AND OTHER PAYABLES</b>		
Trade accounts payable	65,730	38,553
Accruals for salary related expenses	84,062	133,140
Other accruals	49,924	32,156
Other payables	2,370	-
Project advances	26,773	-
VAT payable	24,714	2,935
<b>Total</b>	<b>253,573</b>	<b>206,784</b>

	Incentive Bonus	Leave Pay	Total
<b>13. PROVISIONS</b>			
At 31 March 2000	56,278	4,581	60,859
Additional provisions	22,050	12,741	34,791
Charged to income statement	(56,278)	-	(56,278)
<b>At 31 March 2001</b>	<b>22,050</b>	<b>17,322</b>	<b>39,372</b>

	2001 R'000	2000 Restated R'000
<b>14. CONTINGENT LIABILITIES</b>		
Guarantees issued to various financial institutions in respect of housing loans granted to employees	19,211	17,502
Accumulated leave prior to 31 December 1998	84,109	80,104
	<b>103,320</b>	<b>97,606</b>

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

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

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	2001 R'000	2000 Restated R'000
--	---------------	------------------------

15. CAPITAL COMMITMENTS

Commitments for the acquisition of property, plant and equipment:

- contracted for but not provided in the financial statements	4,327	1,015
---	-------	-------

16. RETIREMENT BENEFIT PLANS

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

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

According to rule 4.9 of the fund, the entire fund is subject to an actuarial valuation once every three years. NBC Employee' Benefits (Pty) Ltd were commissioned by the Minister of Finance, in his capacity as a member of the interim Board of Trustees, to perform an actuarial valuation of the fund as at 31 March 1998.

An actuarial valuation of the fund for 31 March 2001 has been commissioned, and will be completed within the ensuing months.

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

Fair value of planned assets	R156,8 billion
Funding level	96.5%
<i>Including pension increments</i>	
Shortfall	R5,2 billion
<i>Including pension increments</i>	
Actuarial present value of planned assets	R143,8 billion

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS  
**NOTES TO THE FINANCIAL STATEMENTS**  
*as at 31 March 2001*

	2001 R'000	2000 Restated R'000
<b>16. RETIREMENT BENEFIT PLANS - continued</b>		
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>102,068</u>	<u>106,468</u>
Approximately 10 366 of the 10 808 SARS employees contribute to this pension fund.		
<b>17. POST-RETIREMENT MEDICAL BENEFITS</b>		
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.		
<b>18. CASH AND CASH EQUIVALENTS</b>		
Bank balances	475,768	319,562
Bank overdrafts	(16)	(315,984)
Cash on hand	258	244
	<u>476,010</u>	<u>3,822</u>

# SARS INTERNAL FRAUD HOTLINE NUMBER

## HEAD OFFICE

SARS, Private Bag X923, Pretoria 0001

Lehae La Sars, 299 Bronkhorst Street  
Nieuw Mucklenuck, Pretoria 0181

Tel: (012) 422 4000

Fax: (012) 422 6847

## EXTERNAL FRAUD HOTLINE NUMBER:

0800 00 28 70

## INTERNAL FRAUD HOTLINE NUMBER:

0800 00 19 60

### WESTERN CAPE AND NORTHERN CAPE

#### Beaufort West - Receiver of Revenue

Church Street, Private Bag X548,

Beaufort West, 6970

Tel (023) 414-32353235

Fax (023) 414-4264

#### Bellville - Receiver of Revenue

AJ West Street, Private Bag X11,  
Bellville, 7535

Tel (021) 959-9101

Fax (021) 959-9704

#### Cape Town - Regional office

ABSA Building, 6th Floor, 132

Adderley Street, P.O. Box 3926,  
Cape Town, 8000

Tel (021) 481-6100

Fax (021) 481-6161

#### Cape Town - Receiver of Revenue

90 Plein Street, P.O. Box 657,

Cape Town, 8000

Tel (021) 460-2003

Fax (021) 465-4389

#### Cape Town - Customs and Excise

Customs House,

9 Table Bay Boulevard,

Private Bag X9046, Cape Town, 8000.

Tel (021) 401-8500

Fax (021) 421-6263

#### Cape Town International Airport

P.O. Box 9046, Cape Town, 8000

Tel (021) 934-0221

Fax (021) 934-2355

#### George - Receiver of Revenue

cor. 93 York & St. John Streets,

Private Bag X6585, George, 6530

Tel (044) 874-7420

Fax (044) 874-0327

#### Mossel Bay - Customs and Excise

67A Bland Street, P.O. Box 19,

Mossel Bay, 6500

Tel (0446) 91-1065

Fax (0446) 91-1961

#### Nakop / Narogas - Border Post

P.O. Box 1801, Upington, 8800,

Tel (054) 331-1850

#### Oudtshoorn - Customs and

Excise

Allied Building, 4th Floor,

Church Street,

P.O. Box 309, Oudtshoorn, 6620,

Tel (044) 272-2681

Fax (044) 272-7210

#### Paarl - Receiver of Revenue

Rhoba Building,

19/20 Market Street,

Private Bag X5004, Paarl, 7622,

Tel (021) 872-2181

Fax (021) 872-1662



**Paarl - Customs and Excise**  
 Monte Rose Building,  
 276 Main Street, Paarl, 7622,  
 Tel (021) 872-2181  
 Fax (021) 872-7036

**Robertson - Customs and Excise**  
 48 Churst Street, P.O. Box 38,  
 Robertson, 6705  
 Tel (02362) 63-040  
 Fax (02362) 64-363

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

**Stellenbosch - Customs and Excise**  
 Valenda Building,  
 cor. Piet Retief and Skool Streets  
 P.O. Box 41, Stellenbosch, 7599  
 Tel (021) 887-3036  
 Fax (021) 887-5924

**Upington - Customs and Excise**  
 Ancorley Building,  
 1st Floor, Schott Street,  
 P.O. Box 1801, Upington, 8800  
 Tel (054) 331-1210  
 Fax (054) 332-3501

**Violsdrif, SARS**  
 P.O. Box 582, Violsdrif,  
 Springbok, 8250  
 Tel (027) 761-8707  
 Fax (027) 761-8977

**Vredendal - Customs and Excise**  
 Reubini Building,  
 cor. Church & Matzikkamma Streets  
 P.O. Box 10, Vredendal, 8160  
 Tel (0271) 33-009  
 Fax (0271) 33-009

**Worcester - Receiver of Revenue**  
 Nordee Building,  
 59 Church Street, Private Bag X3065,  
 Worcester, 6850,  
 Tel (023) 342-0051  
 Fax (023) 347-4947

**Worcester - Customs and Excise**  
 New Magistrate Building,  
 Adderley Street,  
 P.O. Box 21, Worcester, 6850,  
 Tel (023) 347-2979  
 Fax (023) 347-5134

## GAUTENG

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

**Benoni - Receiver of Revenue**  
 65 Howard Avenue,  
 P.O. Box 141, Benoni, 1500  
 Tel (011) 421-1701/422-3070  
 Fax (011) 421-6904/421-1726

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

**Brakpan - Receiver of Revenue**  
 106 Kingsway Avenue,  
 P.O. Box 40, Brakpan, 1540  
 Tel (011) 740-2900  
 Fax (011) 740-1175

**Germiston - Receiver of Revenue**  
 Outeniqua Building,  
 cor. Victoria & Plantation Streets,  
 P.O. Box 166, Germiston, 1400  
 Tel (011) 873-2468  
 Fax (011) 873-3916/8583

**Germiston - Customs and Excise**  
 cor. Meyer & Voortrekker Streets,  
 Private Bag X1012,  
 Germiston, 1400  
 Tel (011) 873-8313  
 Fax (011) 873-1177

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

**Johannesburg - Receiver of Revenue**  
 New Government Building,  
 4 Rissik Street,  
 Johannesburg, 2000,  
 Tel (011) 314-8619  
 Fax (011) 374-8000

**Johannesburg - Custom and Excise**  
 cor. Market & Fraser Streets,  
 Private Bag X21, Marshall Town,  
 Johannesburg, 2107  
 Tel (011) 832-3341/2  
 Fax (011) 834-6526

**Johannesburg International Airport**  
 New Freight Agents Building,  
 Room 306, Private Bag X3,  
 Johannesburg International  
 Airport, 1627  
 Tel (011) 923-2400  
 Fax (011) 970-1484

**Krugersdorp - Receiver of Revenue**  
 40 Kobie Krige Street,  
 P.O. Box 401, Krugersdorp, 1740  
 Tel (011) 953-3583  
 Fax (011) 660-6237

**Lanseria International Airport**  
 Private Bag X21, Marshall Town,  
 Johannesburg, 2001  
 Tel (011) 701-3481  
 Fax (011) 834-6526

**Nigel - Receiver of Revenue**  
 cor. Hendrik Verwoerd & 4th Avenue,  
 P.O. Box 80, Nigel 1490,  
 Tel (011) 814-4801  
 Fax (011) 814-1662

**Pretoria - Receiver of Revenue**  
 cor. Schoeman & Van der Walt Streets,  
 P.O. Box 436, Pretoria, 0001,  
 Tel (012) 317-2000  
 Fax (012) 317-2666

**Pretoria - Head Office**  
 Lehae la SARS, 299 Bronkhorst Street,  
 Nieuw Muckleneuk, 0181,  
 Tel (012) 422-4000  
 Fax (012) 422-5181

**Pretoria - Customs and Excise**  
 136 Schoeman Street,  
 Private Bag X326, Pretoria, 0001  
 Tel (012) 334-6400  
 Fax (012) 328-6478

**Randfontein - Receiver of Revenue**  
 39 Stubb Street, P.O. Box 3,  
 Randfontein, 1760  
 Tel (011) 411-7200  
 Fax (011) 693-4776

**Roodepoort - Receiver of Revenue**  
 Horizon Centre, cor. Sonop &  
 Ontdekker Streets,  
 P.O. Box 228, Roodepoort, 1725  
 Tel (011) 763-5192  
 Fax (011) 760-2341

**Sandton - Corporate Tax Centre**  
Block G, Hurlingham Office Park,  
cor. William Nicol Drive &  
Republic Road, Private Bag X9901,  
Sandton, 2146

Tel (011) 789-6336

Fax (011) 789-8129

**Springs - Receiver of Revenue**

74 Third Street, Springs, 1560

Tel (011) 815-5470

Fax (011) 362-6572

**Vereeniging - Receiver of Revenue**

cor. Joubert & Merriman Avenues,  
Vereeniging, 1930

Tel (016) 422-3621

Fax (016) 422-4031

**KWAZULU-NATAL AND  
EASTERN CAPE**

**Bisho - Receiver of Revenue**

Tyamzashe Building, Sebe Avenue,  
Private Bag X0034, Bisho, 5608,

Tel (040) 609-4931

Fax (040) 35-1403

**Durban - Regional Office**

Penthouse Suite 2501,

The Embassy,

199 Smith Street,

Private Bag X54368, Durban, 4000

Tel (031) 367-6020

Fax (031) 332-2823

**Durban - Receiver of Revenue**

201 West Street, Durban, 4000

Tel (031) 360-8383

Fax (031) 333-7000

**Durban - Customs and Excise**

Customs House, Victoria

Embankment Road

Private Bag X54305, Durban, 4000

Tel (031) 367-6100

Fax (031) 337-2009

**Durban - International Airport**

Private Bag X54305, Durban 4000

Tel (031) 469-1979

Fax (031) 469-3569

**East London - Receiver of Revenue**

cor. Terminus & Station Streets,

P.O. Box 692, East London,

5200, Tel (043) 722-4386

Fax (043) 743-2899

**East London - Customs and Excise**

Buffalo Harbour,

Hely Hutchenson Street

Private Bag X9002,

East London, 5200

Tel (043) 722-4386 X 224

Fax (043) 743-2899

**Golela - Border Post**

P.O. Box 473, Pongola, 3170

Tel (034) 435-1165

Fax (034) 435-1060

**Pietermaritzburg - Receiver of Revenue**

209 Pietermaritz Street, P.O. Box

383, Pietermaritzburg, 3200

Tel (033) 345-5817

Fax (033) 342-6100

**Pietermaritzburg - Customs and Excise**

Prestasi Building,

221 Pieter Maritz Street,

P.O. Box 352, Pietermaritzburg, 3200

Tel (041) 582-3540

Fax (041) 586-0618

**Port Elizabeth - Receiver of Revenue**

St. Mary's Terrace,

cor. White & Main Streets

Port Elizabeth, 6000

Tel (041) 585-4001

Fax (041) 586-0618

**Port Elizabeth - Customs and Excise**

156 Government Mbeki Avenue,

Port Elizabeth, 6000,

Tel (041) 585-1731

Fax (041) 586-0120

**Port Elizabeth International Airport**

Private Bag X6039,

Port Elizabeth, 6000

Tel (041) 581-2181

Fax (041) 581-7761

**Qachasnek - Borderpost**

P.O. Box 844, Matatiele, 4730

**Richards Bay - Customs and Excise**

103 Dollard Drive, Alton,

P.O. Box 225, Richards Bay, 3900

Tel (035) 798-6907

Fax (035) 798-6909

**Uitenhage - Receiver of Revenue**

No. 5 Young Street,

Uitenhage, 6230

Tel (041) 992-2536

Fax (041) 991-0327

**Umlazi - Receiver of Revenue**

Umlazi Centre,

Amawhele Building,

Private Bag X18,

Mobeni, Umlazi, 4060

Tel (031) 907-9035

Fax (031) 907-1120

**Umtata - Receiver of Revenue**

Sutherland Street

Private Bag X5027, Umtata, 5100

Tel (0475) 31-2165

Fax (0475) 31-1343

**MPUMALANGA AND  
NORTHERN PROVINCE**

**Beitbridge - Border Post**

Private Bag X601, Messina, 0800

Tel (015) 530-0071

Fax (015) 530-0072

**Giyani - Receiver of Revenue**

Parliament Building, Department

of Justice, Private Bag X9665,

Giyani, 0826

Cell: 083 321 3628

**Groblersburg - Border Post**

P.O. Box 101, Tom Burke, 0621

Tel (014) 767-1019

Fax (014) 767-1264

**Jeppes Reef - Border Post**

P.O. Box 3025, Shongwe

Mission, 1331

Tel (013) 781-0561/2

Fax (013) 781-0562

**Lebombo - Border Post**

N4 Komatipoort, P.O. Box 24,

Komatipoort, 1340

Tel (013) 790-7201

Fax (013) 790-7059

**Lebowakgamo - Receiver of Revenue**

Old Lebowa Finance Wing,

Old Parliamentary Complex,

Private Bag X34

Lebowakgomo, 0737

Tel (015) 633-6140

Fax (015) 633-6150

**Mahamba - Border Post**

Private Bag X5012,  
Piet Retief, 2380  
Tel (017) 826-4629  
Fax (017) 826-4622

**Mananga - Border Post**

Private Bag X649,  
Komatipoort, 1340  
Tel (013) 790-7448  
Fax (013) 790-7471

**Mogwase - Border Post**

Private Bag X1036,  
Mogwase, 0302  
Tel (01465) 55-660  
Fax (01465) 55-757

**Nelspruit - Receiver of Revenue**

6th & 7th Floor, Nedbank Building,  
31 Brown Street, Nelspruit, 1200,  
Tel (013) 752-5309  
Fax (013) 753-2197

**Nelspruit - Customs and Excise**

Nelspruit Airport, P.O. Box 2981,  
Nelspruit, 1200

Tel (013) 741-3529

Fax (013) 741-3529

**Nerston - Border Post**

P.O. Box 458, Amsterdam, 2375

Tel (017) 846-9007

Fax (017) 882-0060

**Oshoek - Border Post**

Private Bag X9077, Ermelo, 2350

Tel (017) 882-0061

Fax (017) 882-0060

**Pietersburg - Regional Office**

The Mall, Ground Floor,  
cor. Biccard and Thabo Mbeki  
Streets, Pietersburg, 0700

Tel (015) 291-4670/1/3/4/5 Fax  
(015) 291-4678

**Pietersburg - Receiver of Revenue**

Landros Maré Street, Private Bag  
X9384, Pietersburg, 0700

Tel (015) 295-3100

Fax (015) 291-4019

**Standerton - Receiver of Revenue**

cor. Church & Princess Streets,  
Standerton, 2430,

Tel (017) 712-2140

Fax (0107) 712-2037

**Venda - Receiver of Revenue**

Old Post Office Road,  
Mphepho Street Sibasa, 0970

Tel (015) 963-3376

Fax (015) 963-3377

**Witbank - Receiver of Revenue**

cor. Botha & Paul Kruger Streets,  
Private Bag X7212, Witbank, 1035,  
Tel (013) 656-1096  
Fax (013) 690-3898

**FREE STATE AND NORTH WEST****Bloemfontein - Receiver of Revenue**

cor. Aliwal & Nelson Mandela Streets,  
P.O. Box 313, Bloemfontein, 9300  
Tel (051) 506-3000

Fax (051) 448-0829

**Bloemfontein - Customs and Excise**

Metropolitan Building,  
cor. Aliwal & St. Andrews Streets  
P.O. Box 265, Bloemfontein, 9300  
Tel (051) 447-2507

Fax (051) 447-4699

**Caledonspoort - Border Post**

P.O. Box 175, Ficksburg, 9725

**Ficksburg Bridge - Border Post**

P.O. Box 17, Ficksburg, 9730

Tel (051) 993-5674/5

Fax (051) 933-5839

**Kimberley - Receiver of Revenue**

Hyesco Building, Old Main Road,  
Private Bag X6068, Kimberley, 8300,  
Tel (053) 831-2250

Fax (053) 831-7616

**Kimberley - Customs and Excise**

cor. Night & Stead Streets,  
P.O. Box 86, Kimberley, 8300

Tel (053) 831-1644

Fax (053) 831-3241

**Klerksdorp - Receiver of Revenue**

Revenues Building, 39 Leask Street,  
Private Bag A4, Klerksdorp, 2570,  
Tel (018) 464-1551

Fax (018) 464-2885

**Kopfontein/Tlokwen - Border Post**

P.O. Box 706, Zeerust, 2865

Tel (018) 365-9057

Fax (018) 365-9026

**Kroonstad - Receiver of Revenue**

Cnr Hill and Steyn Street,  
No. 56 LMC Building  
Kroonstad, 9499

Tel (056) 212-2151

Fax (056) 212-1594

**Mmabatho - Receiver of Revenue**

Revenue House, Mmabatho,  
cor. Barokologabi & Bathlaping Streets,  
Private Bag X2131, Mmabatho, 2735  
Tel (018) 384-1336

Fax (018) 392-4650

**Mmabatho - Customs and Excise**

cor. Barokologabi & Bathlaping Streets,  
Private Bag X2038, Mmabatho, 2735,  
Tel (018) 392-5942

Fax (018) 392-2942

**Maseru Bridge - Border Post**

P.O. Box 1042, Ladybrandt, 9745,  
Tel (05192) 44-033

Fax (05192) 44-000

**Ramatlahama - Border Post**

Private Bag X113, Mmabatho, 2735  
Tel (018) 386-0313

Fax (018) 393-0314

**Rustenburg - Receiver of Revenue**

cor. Klopper & Van Staden Streets,  
Private Bag X82068,

Rustenburg, 0300,

Tel (014) 592-2035

Fax (014) 597-1001

**Skilpadshak - Border Post**

Private Bag X2016, Lerato,  
Lehurutshe, 2865

Tel (018) 364-1469

Fax (018) 364-1469

**Vanderbijlpark - Regional Office**

Metropolitan Life Building,  
Ground Floor,

22 FW Beyers Street,

P.O. Box 4231, Vanderbijlpark, 1900

Tel (016) 933-2177

Fax (016) 933-2195

**Van Rooyens Hek - Border Post**

P.O. Box 10, Vredendal, 8160

**Welkom - Receiver of Revenue**

Central Government Building,  
cor. Heerden & Tulbach Streets,  
Private Bag X3, Welkom, 9460

Tel (057) 352-8375

Fax (057) 352-2165



**COMMUNICATIONS, 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](http://www.sars.gov.za)**