ANNUAL REPORT
SOUTH AFRICAN REVENUE SERVICE
2009

SARS
At Your Service

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ANNUAL REPORT

South African Revenue Service

2008/09

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MESSAGE BY THE MINISTER OF FINANCE,

TREVOR A MANUEL, MP

MESSAGE BY THE MINISTER OF FINANCE, TREVOR A MANUEL, MP

This Annual Report of the South African Revenue Service (SARS) marks the end of my tenure as the designated Minister in Cabinet responsible for SARS.

After 13 years in this portfolio, I present this review of SARS's work over the past fiscal year with special attention.

For more than a decade, I have witnessed how SARS's institutional reform enabled our developmental state to give practical effect to the earliest aspirations of our liberation struggle: building a prospering democracy that provides human dignity and support to the most vulnerable and marginalised among our citizens, a democracy that is able to determine and to finance its own development.

Our political aspirations after 1994 to build national unity and to create a better life for all were one thing – the economic reality at the time that determined the capability of government to deliver was infinitely more complex and considerably more challenging.

The odds against our success were formidable.

By April 1996 our budget stood at more than 10% of gross domestic product (GDP). Market sentiment and investor confidence remained uncertain and overtly sceptical about the ANC's economic policy direction.

Fifteen years later we table the SARS Annual Report for the financial year 2008/2009.

May it serve as a reminder that "our democratic epoch moved at such a hectic pace that even some of the seminal moments marking the birth of democracy… present themselves in the subconscious mind as being mere chapters in an ageing historical record of a distant past…". I choose to agree with the views of President Thabo Mbeki, our former head of state, who was recalled from office during the period under review.

Despite the uncertainty following the events of September 2008, our democracy and our economy prevailed, demonstrating not only political austerity but, importantly, economic resilience and confidence at a time when the global economy entered its downward trajectory towards recession. Admirably, we again responded to the scepticism of 1996 when we took on the daunting responsibility of managing this country's economic affairs.

Our transition since the last quarter of 2008 included the appointment of a new interim President, new Cabinet Ministers appointed to fill vacancies in our national executive and new Members of Parliament (MPs) sworn in to this and other legislatures for an interim period, thus ensuring institutional and administrative continuity in governance at all levels.

The biggest credit to our infant democracy is that our country and its leaders insisted on an absolute commitment to adhere to our Constitution and to observe due legal process during our transition. We recognised the need for change, we collectively accepted change and ultimately we successfully managed fundamental change in our unique South African way. We recognised that the interests of our nation and our country supersede narrow political interests and self-interest.

As we table this annual report we, in common with the rest of the world, confront the reality that our economy is contracting instead of growing; that key industries are shedding not creating jobs; that we, like the rest of the world, have to battle our way through a global economic recession for the first time in 17 years.

For the period under review our growth prospects and our revenue expectations were adjusted downwards as a result of rapidly deteriorating global conditions, in particular during the first quarter of 2009.
The February 2009 Budget revised the revenue target to R627.69 billion – R14.58 billion down from the original printed estimate of R642.27 billion.

By 31 March 2009 SARS had collected R625.10 billion in revenue which represents a collections outcome of 99.59% against the revised revenue target. Total collections fell 0.41% short of target but still represent revenue growth of 9.1% from the previous financial year.

In the current conditions, this final revenue outcome is a remarkable achievement!

Our revenue system continues to provide a firm foundation for our optimism about stronger future growth and our capacity to maintain a relatively strong fiscal position. Despite current conditions the assurance we have lies in SARS's ability to provide sustainable revenue yield. We were able to table the most expansionary Budget in February this year.

The 2009 Budget commits us to continue public expenditure growth and to ambitious infrastructure investment spending over the medium term. We do so because we are confident that SARS will continue to deliver the requisite resources to manage a moderate budget deficit. We are confident because SARS, in this annual report, again illustrates its ability to progressively grow our tax base, improve the levels of tax compliance in the country and further outlines its ambitions to build an even more efficient tax and customs administration.

Ultimately, as the political principal overseeing the work of this administration, I take great pride in SARS's transition over the past 13 years and the commitment of some 15 000 revenue and customs officials who serve our country. To date, SARS's organisational performance translates into delivering revenue of more than R4.5 trillion to the fiscus over the past 15 years!

Please join me in thanking SARS Commissioner Pravin Gordhan and his management team for their invaluable contribution to our country, to our economy and to building our democracy.

REVIEW BY THE COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE,

PRAVIN GORDHAN

REVIEW BY THE COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE, PRAVIN GORDHAN

At SARS, the act of presenting our annual report is more than a fulfilment of the requirements of the law. Rather, it recognises the fundamental need for the accountability of public institutions and we use it as a mirror of our performance, public credibility and reputation.

In everything that we do we are always conscious of the peculiar circumstances that South Africa finds itself in. We are a young democracy with young public institutions that have to be nurtured and whose norms are still evolving. We contain within our borders stark contrasts of wealth and poverty that are accompanied by diverse social norms. Therefore, whatever change we seek to effect will succeed only if it is attenuated to these realities. I trust that in this report you will glean a sense of an organisation that has strived to contribute its fair share to the development of our country and the eradication of poverty.

Over the past financial year SARS has made great strides in reaching our goals as set out in the strategic plan that we presented to Parliament. In that plan we noted that SARS had to change in a fundamental way to meet the growing demand for our services, to manage risk more effectively and to improve the compliance in South Africa.

There are three fundamental aspects to this change. Firstly, core processes and systems have had to be modernised so as to ensure that routine tasks are electronically processed, and that information is digitised as far as is possible. Since 2007, we have gone through two stages of the modernisation of personal income tax processes. We are pleased not only by the technical standards we have achieved but also in the partnerships we have built with employers, a reduced error rate on our part and a much better service to the public. The results are easy to discern. During Tax Season 2008, more than 1 million taxpayers registered and submitted their returns online through the eFiling system. This is a huge increase from the 30 000 taxpayers who used eFiling last year. In the next financial year we expect to reach a new and much higher mark in this regard. Notably, more than 98% of government departments complied with the new submissions process for the PAYE reconciliation statements.

Secondly, we have sought to design an operating and organisational model that would lead to greater professional standards among our staff. We proceeded in three stages: the conception of a new operating model; the development of a complementary organisational design; and the placement of people based on a "goodness of fit" principle.

We are happy to report that for much of senior and middle management the placement process is complete. The process for the rest of the staff will be rolled out during the new fiscal year.

We collected R625 billion. This was R2.6 billion short of the revised target of R627.7 billion. Some factors that contributed to the revenue shortfall included a steep decline in the manufacturing sector, job losses in the mining sector, lower imports, higher interest rates, a virtual standstill in the property market and lower household consumption. All of this flowed from a severe decline in the global economy. We expect these conditions to continue for a while longer and they are likely to impinge on our revenue collection effort over the coming year. We are also aware that in conditions of economic decline there is an appreciable increase in non-compliance with tax obligations. This means that we will have to work harder than previous years just to maintain the current revenue.

Having been part of SARS for so long, I am confident that this is not beyond us. But we enter this new period without any illusions about the difficulties that lie ahead.

SARS has a dedicated staff committed to collect revenue in order to fund the state's development agenda. Our proven track record of hard work and a "can do" approach has stood us in good stead, and will do so again in the future. It is a tradition that remains strong and I want to thank the 15 000 staff for their continued commitment to the organisation and the development of our country.

Pravin Gordhan

PART 1: INTRODUCTION

PART 1: INTRODUCTION

SARS OVERVIEW

Mandate

The South African Revenue Service (SARS) was established by the South African Revenue Service Act, 1997 (Act No. 34 of 1997) as an organ of state within the public administration, but as an institution outside the public service. It is responsible for the collection of tax and Customs revenue for national government. This mandate is derived from the SARS Act and the 22 pieces of legislation which SARS administers. Legislation that SARS administers according to the SARS Act (Schedule 1 to the Act) includes:

- Union and Southern Rhodesia Death Duties Act (1933)
- Marketable Securities Tax Act (1948)
- Transfer Duty Act (1949)
- Estate Duty Act (1955)
- Income Tax Act (1962)
- Customs and Excise Act (1964)
- Stamp Duties Act (1968)
- Value-Added Tax Act (1991)
- Section 60 of the Income Tax Act (1993)
- Section 39 of the Taxation Laws Amendment Act (1994)
- Company Tax Amendment Decree (1994) of the former Republic of Ciskei
- Section 41 of the Income Tax Act (1994)
- Tax Amnesty Act (1995)
- Sections 56 and 57 of the Income Tax Act (1995)
- Tax on Retirement Funds Act (1996)
- Final Relief on Tax, Interest, Penalty and Additional Tax Act (1996)
- The Sales Tax Act (1978), to the extent that it remains in force in terms of Section 85 of the Value-Added Tax Act (1991)
- Uncertificated Securities Tax Act (1998)
- Demutualisation Levy Act (1998)
- Skills Development Levies Act (1999)
- Unemployment Insurance Contributions Act (2002)
- Any regulation, proclamation, government notice or rule issued in terms of the abovementioned legislation or any agreement entered in to in terms of this legislation or the Constitution.

In its operations and functions SARS must also take cognisance, among others, of the:

- Basic Conditions of Employment Act (1997)
- Labour Relations Act (1995)
- Employment Equity Act (1998)
- Public Finance Management Act (1999)
- Promotion of Access to Information Act (2000)
- Promotion of Administrative Justice Act (2000).

PART 1: INTRODUCTION - cont.

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

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

SARS's contribution is in support of the South African government's mandate to protect the constitutional rights of all living in South Africa, including the delivery of services implicit in these rights. The revenue raised by SARS is used by government to supply health and education services; provide housing, electricity, water and sanitation; and to intervene to alleviate poverty and to stimulate decent work opportunities. SARS's efforts in trade facilitation and the regulation of trade at our ports of entry aim to protect the economy. In working to promote compliance with tax and customs legislation, SARS is aligned with the government's drive to create a socially just society.

Mission

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

SARS is enjoined to protect and grow the country's revenue base. To deliver on this mandate, SARS has contributed to tax policy reforms to the benefit of the economy. One outcome is that the government has been able to eliminate the budget deficit, increase resources available for spending on poverty eradication and infrastructure development, and give considerable relief to individuals.

Vision

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

Strategic Objectives

In order to deliver on its strategic mandate in a sustained way, SARS focuses on giving effect to the following seven strategic objectives:

1. Optimising revenue and compliance

Optimising revenue collection by improving compliance and managing risk by entrenching a culture of compliance.

2. Better taxpayer and trader experience

Ensuring a better taxpayer and trader experience through promoting awareness and understanding of tax obligations among taxpayers and traders and to make it easier for them to comply by simplifying procedures and processes and improving our service.

3. Improve compliance and reducing risk

Improving enforcement by penalising non-compliance and reducing the opportunities for tax evasion. The goal is to ensure that every taxpayer and trader fully meets their legal obligations.

4. Develop human capacity

Continuing staff development and promoting a culture of integrity and professionalism throughout the organisation.

5. Trade facilitation and border security

Enhancing trade facilitation and border control through improved trade supply chain management.

6. Operational efficiency

Ensuring greater efficiency by using staff effectively, upgrading and automating our core tax systems and improving our processes.

7. Good governance

Ensuring good governance and administration in compliance with the regulatory framework.

Values

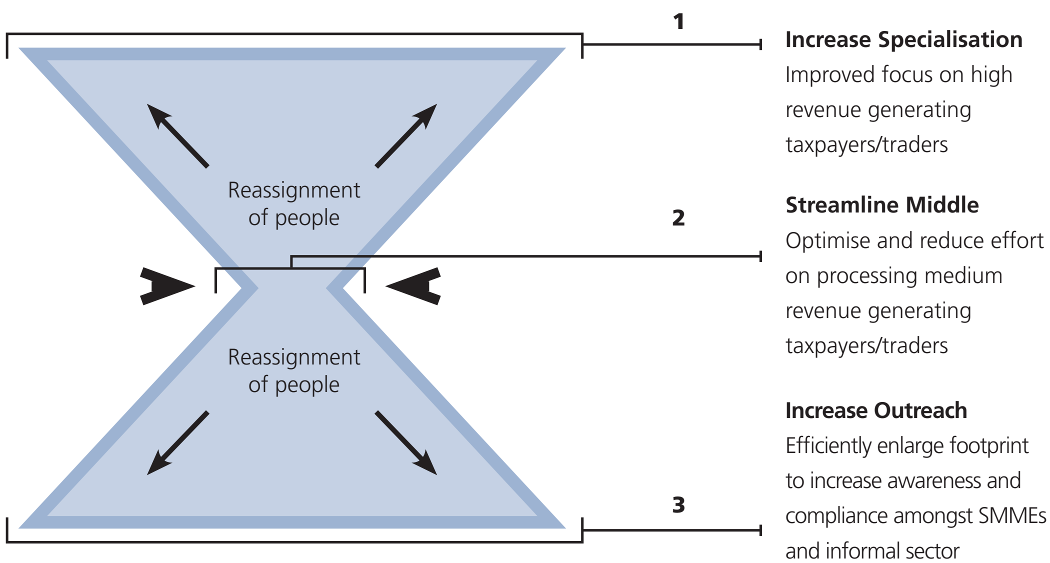
SARS has zero tolerance for corruption. We optimise our human and material resources and leverage diversity to deliver a quality service to all those engaged in legitimate economic activity within and with South Africa. Our relationships, business processes and conduct are based on the following values:

- Mutual respect and trust
- Equity and fairness
- Integrity and honesty
- Transparency and openness.

PART 1: INTRODUCTION - cont.

SARS'S STRATEGY

SARS is steadily transforming itself into a flexible and professional organisation accessible to and trusted by the taxpaying public. Key to improving its performance – its efficiency as a collector of revenue, and its effectiveness in facilitating trade and ensuring compliance – is the strategy to automate and streamline the execution of standard processes, thereby relieving staff of routine tasks. This enables the redeployment of staff to areas where their skills and knowledge can add more value through application to tasks requiring individual consideration. This is depicted in the figure below.



The model further recognises that as different taxpayer and potential taxpayer groupings have different requirements, SARS should tailor its interactions with each grouping in line with its particular requirements. Analysis was undertaken to segment the taxpayer and trader base, according to the nature of the dominant interaction required to facilitate the segment's cooperation and compliance with tax and customs requirements. Based on this study, SARS recognises nine distinct groupings or segments, namely tax practitioners and trader intermediaries (both offer the potential of partnerships with SARS); complex, standard and 'below threshold' individuals; large, medium and small businesses; and a grouping of non-governmental organisations (NGOs), public benefit organisations (PBOs) and government departments – see figure on page 11.

Segments in customer base

Agents & intermediaries

1. Tax practitioners
- 24 937 are registered with SARS of which 64% are registered with a professional body
- Tax practitioners represent on average 244 taxpayers

2. Trade intermediaries
- 44 479 importers
- 23 576 exporters
- 2 785 clearing agents

10. Employer as agent
- Entities registered for PAYE (393 974 on SARS database)
- Payroll administration companies

Individuals

3. Complex
- R125bn tax revenues
- 2.75m individuals on SARS database

4. Standard
- R65bn tax revenues
- 2.9m individuals on SARS database

5. SITE and below threshold
- R6bn tax revenues
- 5.6m individuals on SARS database

Businesses and SOEs

6. Large
- 21 561 businesses on SARS database
- CIT: R131bn
- VAT: R7bn
- PAYE: R79bn

7. Medium
- 45 286 on SARS database
- CIT: R19bn
- VAT: R89bn
- PAYE: R48bn

8. Micro to small
- 2 347 341 businesses
- CIT: R15bn
- VAT: R57bn
- PAYE: R30bn

Special

9. NGOs, PBOs & government departments
- 37 National departments
- 133 Provincial departments
- 284 Municipalities
- 114 Embassies
- 27 000 PBOs
- R27bn PAYE
- R4bn VAT

PART 1: INTRODUCTION - cont.

SARS'S OPERATING MODEL

In the year under review SARS adopted a new operating model which is closely aligned with the organisation's strategic priorities going forward. SARS's new operating model reflects and embraces the changes introduced in the Modernisation Agenda and divides the organisation into three broad functional areas:

- Functions which are of an **advisory, strategic** nature including strategic planning, budgeting, revenue management.
- Functions which are essentially **enabling and which support** delivery including such functions as corporate legal, finance and accounting, process engineering, operational improvements, human resources, governance and enterprise risk management, knowledge management, and culture. Enabling functions include taxpayer segment research, tax products management, modernisation, quality management, and Information and Computer Technology (ICT) services. Specific functions such as process engineering and operational improvements include both an advisory/strategic and enabling/support component.
- Functions that are involved in **service delivery** including customs, border control, small/medium/large taxpayer-oriented units (employers, tax practitioners, trade intermediaries, other segments), branch office operations, operations assessment, scanning, eFiling, paper filing, collections, education, outreach and enforcement.

Delivery Business Units:

Taxpayer Services

The Taxpayer Services division interacts with taxpayers in a focused manner in order to address their needs. The division has adopted an approach which categorises taxpayers into stakeholder segments. This enables it to better analyse and understand these segments and to tailor-make its service offerings to the differing needs of the various segments. The division has also introduced a further differentiation in the period under review by ensuring the full responsibility for the different tax types or products (i.e. PIT, VAT, CIT etc) resides with designated "owners" who oversee the product end-to-end. A dedicated unit has also been set up to ensure that taxpayer services branches adhere to set standards with regard to service delivery and the implementation of processes and procedures.

Business Enabling and Delivery Services (BEADS)

As its name indicates the core responsibilities of this division are divided into two main areas. The first of these is the delivery of SARS services to the public via the national call centre and the processing of tax returns within stipulated turnaround times in the processing centres. The division is also responsible for following up on outstanding returns. The division's second core responsibility is to offer effective and innovative information and process solutions to the organisation to enable it to conduct its business efficiently.

Large Business Centre (LBC)

The role of the Large Business Centre (LBC) is to provide large corporates and high net worth individuals with a one-stop, world class and comprehensive range of services aimed at helping them meet their tax obligations. The LBC model comprises eight industry sectors (manufacturing, mining, communications, construction, financial services, retail, primary and general and diversified holdings) It offers and end-to-end service, with each sector offering multiple expertise, ranging from return processing, accounts maintenance and collections through to specialised risk profiling and audit. A key component of the sector is the taxpayer service facility which is headed by a taxpayer relationship manager.

Customs and Border Management

Customs plays a key role in securing South Africa's international trade supply chains and in protecting the economy by controlling the movement of goods across our borders. It is our first line of control in protecting our society and economy from the illegal trade in harmful substances and counterfeit goods.

Enforcement and Compliance Risk

The Enforcement division aims to foster compliance with South Africa's tax and compliance laws by deterring and detecting non-compliant behaviour among taxpayers and traders. The Enforcement function comprises a variety of activities including audits, debt management, criminal investigations and the implementation of targeted campaigns aimed at specific industries to detect and root out illegal trade and non-compliance.

Enabling and Advisory Business Units:

Strategic Services

The Strategic Services Division is responsible for enterprise-wide strategic, advisory and enabling support to the delivery divisions. In this capacity, the division focuses on setting the overall framework and facilitating the process by which SARS conducts its Strategic and Corporate Planning and Strategy Monitoring and Reporting; undertakes Revenue Planning, Analysis and Reporting and assumes a custodial role in the effective enhancement of SARS's reputation and brand, through the management of strategic stakeholder relationships, marketing and media campaigns, as well as the management of external and internal communications.

Legal and Policy Division

SARS's revenue collection and customs control activities are based on and underpinned by the tax and customs laws. The Legal and Policy Division plays an important role across the legislative framework through influencing the policy underpinning such legislation; assisting with the development and correct application of legislation

PART 1: INTRODUCTION - cont.

by means of interpretation notes, rulings (including advance tax rulings) and guides; providing taxpayers with a fair dispute resolution process by speedily and cost-effectively resolving tax and customs disputes either through the Alternative Dispute Resolution (ADR) process or litigation. It also provides corporate legal support to SARS.

Finance

Finance is a support division that provides financial and management accounting (own accounts and administered revenue, facilities) and procurement services to SARS. It ensures sound financial management based on legislative requirements, best practice and principles of good governance and provides financial expertise and direction in alignment with overall business strategies.

Human Resources

The Human Resources division's responsibility is to enhance SARS's human capability through the recruitment, placement, retention and development of staff. Attention is given to employment equity, staff wellbeing, the development of staff via the implementation of a career model. The division also plays a key role in fostering a cadre of professional managers and in recognising and rewarding outstanding performance by employees.

Segmentation and Research

The Segmentation and Research division is the primary provider of relevant, credible and timely advisory research that appropriately influences executive strategic priorities, policies and financial decision making.

Governance and Enterprise Risk

Prior to the establishment of the Governance and Enterprise Risk division, the governance, risk and compliance functions were fragmented across various divisions. Recent incidents of governance failures globally, both in the public and private sectors, have highlighted the need for integrated approaches to governance, risk and compliance. Accountability for governance, risk management and compliance is vested in all levels of business. The division is tasked with setting and monitoring entreprise wide governance, risk and compliance standards.

Institutional Enablement and Integrity

The mission of the Institutional Enablement & Integrity division is to equip the Commissioner through administrative support, the facilitation of structured committees, informative reporting capabilities and constructive monitoring of the main focus areas of the Commissioner. It also aims to promote and ensure a culture of integrity.

Modernisation and Technology

The Modernisation and Technology division ensures that technology is used effectively and efficiently as an enabler in helping SARS achieve its strategic objectives. It aims to be the driving force behind the modernisation of SARS with the objective of turning it into a world-class tax and customs agency.

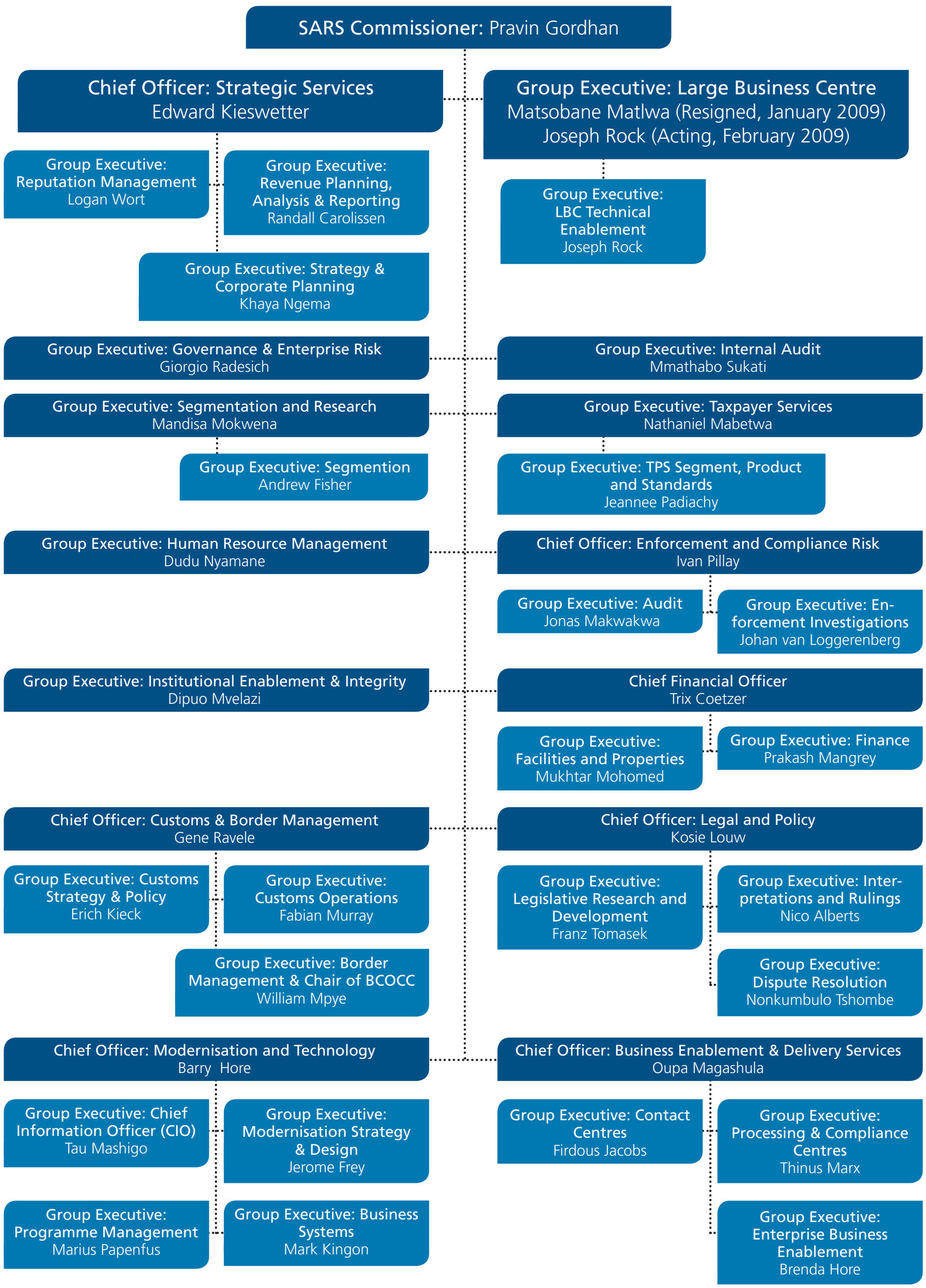
Internal Audit

Under section 55, Chapter 6 of the Public Finance Management Act (the PFMA) the Commissioner is required to demonstrate that the public resources he is responsible for are being used efficiently, effectively and ethically to deliver on SARS's agreed outcome to government. To assist him with this responsibility, a system of Internal Audit under the control and direction of the Audit Committee is required (section 51(1)(a)(ii)). This requirement is supported by the King II report on Corporate Governance. SARS Internal Audit was established in 1997 and operates in terms of an approved charter, based on the requirements of the PFMA and Standards for the Professional Practice of Internal Audit of the Institute of Internal Auditors.

PART 1: INTRODUCTION - cont.

ORGANISATIONAL STRUCTURE

Figure 1: SARS management structure



PART 2: PERFORMANCE OVERVIEW

PART 2: PERFORMANCE OVERVIEW

PERFORMANCE CONTEXT

The South African Revenue Service (SARS) is steadily transforming itself into a flexible and professional organisation accessible to and trusted by the taxpaying public. Following the development of the strategy and the identification of the differentiated operating model in 2008/2009, SARS increasingly focused on the key taxpayer and trader segments.

In the year under review SARS developed, adopted and implemented a SARS scorecard fully aligned to its Strategic Plan and the Corporate Plan.

During the past 10 years the SARS annual reports have demonstrated how improved administration efficiencies can result in sustained and increased levels of revenue beyond that predicted by growth and employment in the South African economy.

SARS's performance has enabled government to significantly expand and sustain its spending on necessary social investment programmes for the betterment of the standard of living of all citizens, while at the same time providing relief to taxpayers.

In the year under review SARS, like numerous other tax authorities, struggled to meet its revenue collection obligation. The severe global economic crisis and extreme instability in financial markets also caused the South African economy to slow down sharply in the 2008/2009 financial year. The country's annualised seasonally adjusted real gross domestic product (GDP) growth rate – the most comprehensive measure of the country's economic performance – slowed sharply from 5.1%to 3.1% at the end of calendar year 2008. The major contributing component to the weak performance was the drastic slump in household demand, which grew by only 2.3% compared to growth of 6.6% in the previous year.

The following is a summary of SARS's annual performance achievements against its strategic objectives.

OPTIMISE REVENUE COLLECTION

Overview

The following table reflects the overall revenue collection performance:

Table 1: Overall performance

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Tax Revenue Collected	Rm	627,693	625,100	Pg 19
PIT	Rm	199,829	196,068	Pg 23
CIT	Rm	163,536	167,203	Pg 23
STC/Dividend Tax	Rm	20,000	20,018	Pg 24
VAT	Rm	154,919	154,343	Pg 24
Excise	Rm	20,420	20,185	Pg 25
Fuel Levy	Rm	24,480	24,884	Pg 24
Customs	Rm	23,780	22,751	Pg 24
Other	Rm	20,729	19,648	Pg 25

As in the case of most of our international counterparts, revenue collection was challenged by rapidly deteriorating economic conditions, especially during the second half of the year 2008/2009. Key economic trends which had significant impact on the revenue collection include:

- A decline in economic growth, from 5.1% to 3.1% in 2008, particularly due to a decline in year-on-year growth in the mining sector and a slower year-on-year growth in the manufacturing, construction and finance sectors
- A decline in household expenditure growth from 7% to 2% and lower growth in capital spending from 16% to 10%
- A decline in production output fuelled by declining local and global demand
- Falling asset prices and a tighter credit market

SARS collected R625.1 billion, falling short of the revised February 2009 Budget estimate by R2.6 billion (99.6% attainment of target). Performances against tax type were as follows:

- Corporate income tax (CIT) – R167.2 billion (R3.7 billion above estimate)
- Secondary tax on companies (STC) – R20.0 billion (R0.02 billion above estimate)
- Personal income tax (PIT) – R196.1 billion (R3.8 billion below estimate)
- Value-added tax (VAT) – R154.3 billion (R0.6 billion below estimate)
- Customs duty – R22.8 billion (R1.0 billion below estimate)

PART 2: PERFORMANCE OVERVIEW - cont.

The most significant component of the deficit was PIT, where collections were below the revised forecast by R3.8 billion (1.9%), partly as a result of adverse trends in employment and higher than expected refunds. Customs duty and VAT collections were respectively R1.0 and R0.6 billion below expectation, due to lower domestic expenditure and a decline in imports.

To mitigate the emerging revenue risks, SARS embarked upon the following initiatives:

- Challenging companies on the underpayment of provisional income tax payments by companies (application of Paragraph19(3) of the Fourth Schedule to the Income Tax Act, 1962)
- Focusing attention on taxpayers' commitment to pay and, where necessary, to revise the amounts upward in line with the actual payments due
- Developing innovative analytical approaches to segment the tax base and develop differentiated approaches with different taxpayers for the collection of various tax types
- Making specific operational efforts on and interacting with high-value importers to minimise the risk of default on customs payments due
- Ensuring meticulous detailed follow-up of outstanding debt
- Focusing overall operational management to ensure that all risks to revenue were identified and managed

BUDGET ESTIMATES

As with the revision of macroeconomic indicators, estimates of tax revenue are formally set or adjusted three times in a fiscal cycle: in February 2008 during the Budget, in October 2008 in the Medium Term Budget Policy Statement (MTBPS) and in February2009 during the Budget session. Presented below are the printed estimates (also referred to as Budget estimates in February 2008), MTBPS estimates and revised estimates (also referred to as Budget estimates in February 2009), which were revised downwards because of the unfavourable economic environment.

Table 2: Estimates per budget revision

Estimate description	Date announced	2007/08 Estimate R million	Date announced	2008/09 Estimate R million
Printed Estimate	February 2007	556,562	February 2008	642,269
Medium Term Budget Policy Statement (MTBPS) Estimate	October 2007	566,063	October 2008	642,269
Revised Estimate	February 2008	571,063	February 2009	627,693

TAX REVENUE

Tax revenue is defined by the System of National Accounts as "a compulsory, unrequited payment to government". Net revenue as disclosed in the Statement of Financial Performance on page 97 reflects all taxes, levies, duties and other monies collected by SARS less Southern African Customs Union (SACU) payments. To ensure clarity, it is prudent to disclose tax revenue as set out in the table below (the calculation on the achievement of SARS's revenue target is based on this approach).

The net revenue for 2008/2009 increased by R50.6 billion, from R565.3 billion in 2007/2008 to R615.9 billion.

The tax revenue of R625.1 billion is arrived at by adding the SACU payments and deducting Unemployment Insurance Fund (UIF) and Road Accident Fund (RAF) receipts, as well as mining leases and ownership, provincial administration receipts, state fines and forfeitures. Mining leases and ownership has been reclassified as non-tax revenue. Historical years have been adjusted for comparative purposes.

Budget revenue represents receipts of the National Revenue Fund and comprises tax revenue as defined above, plus departmental and other receipts and repayments less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the SACU agreement.

Table 3: Tax revenue for the year ended 31 March 2009

	2008/09	2007/08
	R million	R million
NET REVENUE FOR THE YEAR	**615,930**	**565,297**
Add:		
South African Customs Union Agreement	28,921	24,713
Quarterly payments made by National Treasury		
in terms of the South African Customs Union Agreement		
Less:		
Unemployment Insurance Fund (UIF)	10,097	8,954
Road Accident Fund (RAF)	8,909	8,150
Departmental receipts	-	-
Mining leases and ownership	709	56
State fines and forfeitures	3	2
Provincial administration receipts	33	33
State licenses	-	-
TAX REVENUE	**625,100**	**572,815**

PART 2: PERFORMANCE OVERVIEW - cont.

In Table 4 the Budget estimates during the fiscal year are contrasted with the actual performance.

Table 4: Detailed Budget revenue performance for 2008/2009 against estimates

Revenue performance 2008/09 Source of revenue (R million)	Budget estimate Feb 2008	Budget estimate Feb 2009	Actual Result	Increase / decrease on Feb 2008 estimate	Increase / decrease on Feb 2009 estimate
Taxes on income and profits	**369,754**	**383,635**	**383,484**	**13,730**	**-151**
- Persons and Individuals	191,946	199,829	196,068	4,122	-3,761
- Companies	157,808	163,536	167,203	9,395	3,667
- Secondary tax on companies	20,000	20,000	20,018	18	18
- Tax on retirement funds	-	230	143	143	-87
- Other	-	40	52	52	12
Value-added tax	**167,028**	**154,919**	**154,343**	**-12,685**	**-576**
Customs duties	**31,073**	**23,780**	**22,751**	**-8,322**	**-1,029**
Fuel levy	**26,434**	**24,480**	**24,884**	**-1,550**	**404**
Excise Duties	**20,401**	**20,420**	**20,185**	**-216**	**-235**
Skills Development Levy	**7,530**	**7,256**	**7,327**	**-203**	**71**
Other taxes and duties	19,869	13,203	12,126	-7,743	-1,077
TOTAL TAX REVENUE	**642,089**	**627,693**	**625,100**	**-16,989**	**-2,593**
Non-tax revenue	12,005	11,884	11,465	-540	-419
Less: SACU payments	28,921	28,921	28,921	-	-
TOTAL BUDGET REVENUE	**625,173**	**610,656**	**607,644**	**-17,529**	**-3,012**

Note

The tax revenue estimate as reflected in Table 4 for the February 2008 estimate has been adjusted to take cognisance of the reclassification of mining leases and ownership as non-tax revenue in the February 2009 estimate. The 2008/2009 February 2009 estimate as reflected in Table 4 is the only figure that reflects this reclassification.

Each broad category of tax has its own key economic indicators and other factors that affected the overall revenue performance. A discussion on the performance of these categories is outlined below:

Revenue Collection per tax type

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R383.5 billion, which was R13.7 billion higher than the printed estimate and R151 million below the revised estimate.

Personal income tax – including interest

PIT collections exceeded the printed estimate by R4.1 billion and were lower than the revised estimate by R3.8 billion. Performance was influenced by the higher wage settlements (on the back of higher inflation rates), which were (in the latter part of 2008/2009) dampened by lower growth in employment levels. The aggregate increase in employee remuneration declined marginally from 12.3% in 2007 to 11.8% in 2008.

Corporate income tax – including interest

CIT collections exceeded the printed estimate and the revised estimate by R9.4 billion and R3.7 billion respectively, mainly due to the lag effect of strong economic growth on CIT collections and a more comprehensive approach by the SARS Large Business Centre to improve corporate compliance.

Growth in the gross operating surpluses of business enterprises increased from 17.4% in 2007 to 19.5% in calendar year 2008. The better performance in CIT occurred mainly in the following sectors: agriculture, construction, financial services, manufacturing, mining, and wholesale and retail trade.

Table 5: CIT collections by SARS-defined sectors

R'million	06/07	07/08	Growth	%	08/09	Growth	%
Agriculture	3,392	1,414	-1,978	-58.3	2,106	692	48.9
Mining	13,170	13,220	50	0.4	22,370	9,150	69.2
Telecom	9,366	9,284	-82	-0.9	8,332	-952	-10.3
Financial Services	29,549	41,315	11,766	39.8	48,129	6,814	16.5
Banks	*8,695*	*10,241*	*1,546*	*17.8*	*9,691*	*-550*	*-5.4*
Insurance	*8,610*	*13,068*	*4,458*	*51.8*	*19,286*	*6,218*	*47.6*
Other Financial Services	*12,244*	*18,006*	*5,762*	*47.1*	*19,152*	*1,146*	*6.4*
Manufacturing	35,421	38,591	3,170	8.9	44,569	5,978	15.5
Manufacturing	*27,950*	*30,740*	*2,790*	*10.0*	*34,187*	*3,447*	*11.2*
Petroleum	*7,471*	*7,851*	*380*	*5.1*	*10,382*	*2,531*	*32.2*
Wholesale & Retail	12,151	12,620	469	3.9	14,717	2,097	16.6
Business Services	6,403	12,857	6,454	100.8	12,042	-815	-6.3
Medical & Health	1,065	1,835	770	72.3	1,914	79	4.3
Transport	4,094	3,760	-334	-8.2	3,140	-620	-16.5
Construction	1,049	3,039	1,990	189.7	4,587	1,548	50.9
Catering & Accommodation	1,604	1,311	-293	-18.3	1,435	124	9.5
Recreation & Cultural	2,334	1,805	-529	-22.7	1,812	7	0.4
Other	514	585	71	13.8	2,050	1,465	250.4
Total	**120,112**	**141,636**	**21,524**	**17.9**	**167,203**	**25,567**	**18.1**

Efforts made by SARS officials to ensure that provisional corporate tax payments reflected the latest profit positions (application of Paragraph 19(3) of the Fourth Schedule to the Income Tax Act) yielded R14.7 billion

PART 2: PERFORMANCE OVERVIEW - cont.

in 2008/2009 versus R14.9 billion in 2007/2008. This involved better and proactive relationship management between SARS and some companies, and, where necessary, the application of Paragraph 19(3). In addition, specific tracking and active follow-up of large payments ensured the timely payment of taxes due.

Secondary tax on companies

Collections for STC were on target and only slightly exceeded the printed estimate and revised estimate, by R18 million. Legislative changes as well as lower dividends declared resulted in a 3% year-on-year decline in STC collections (from R20.6 billion in 2007/2008).

Tax on retirement funds (RFT)

RFT was abolished on 31 March 2007, and the collections during the year reflected liabilities from previous periods. Collections exceeded the printed estimate by R143 million and were below the revised estimate by R87 million.

Value-added tax

VAT collections were R12.7 billion below the printed estimate and R0.6 million below the revised estimate.

The slower growth in collections was mainly due to the decline in real gross domestic expenditure from 6.0% in 2007 to 3.1% in 2008. Growth in real final household expenditure receded from 6.6% in 2007 to 2.3% in 2008. Growth in fixed capital formation also fell from 16.3% in 2007 to 10.2% in 2008; the growth in capital outlay was sustained by infrastructure projects by public corporations and the government.

Customs duty

Customs duty collections were R8.3 billion below the printed estimate and R1.03 billion below the revised estimate. The decline can be ascribed mainly to declining vehicle imports, which attract high duties. Duties from vehicles declined by 48% compared to a growth of 14% in 2007/2008.

Import VAT and customs duty contributed to the shortfall as a result of falling trade volumes especially during the last quarter of the fiscal year.

Fuel levy

Fuel levy collections were below the printed estimates by R1.6 billion and slightly above the revised estimates by R0.4 billion, mainly due to a decline in the rate of fuel consumption prompted by higher oil prices in 2008 and a decline in transport activity (lower exports and imports). The fuel levy is comprised of fuel levy collections, recoupment of levies from the RAF and diesel refunds.

Excise duties

Excise duty collections were R0.2 billion below the printed estimate and revised estimates, mainly due to lower than-expected collections on beer, wine, spirits and petroleum products.

Skills development levy (SDL)

SDL collections were R203 million below the printed estimate and R71 million above the revised estimates.

Other taxes

Revenue collection in respect of other taxes (consisting of Tax on Retirement Funds, Other, Skills Development Levy and Other taxes and duties in Table 4) amounted to R19.648 billion, which was R7.8 billion below the printed estimate and R1.1 billion below the revised estimate. This was mainly due to lower collections from:

- Ad valorem duties (mainly driven by lower vehicle imports)
- Transfer duties (driven by the decline of activity in the property market) and
- Securities transfer tax (driven by lower trading values on the JSE)

Revenue performance trends for the period 2003/2004 to 2008/2009

The contribution of different taxes to the tax revenue portfolio has changed over the period under review, with the most significant trend being the increased contribution of CIT and STC, and the reduced contribution from PIT and the fuel levy. Table 6 provides a breakdown of the nominal amounts collected during the period; this in comparison to Table 7 which sets out the percentage contribution of the various taxes to total taxes collected.

Table 6: Breakdown of revenue collected

Year	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue	GDP	Tax as % of GDP
(R million)										
2003/04	99,220	61,712	6,133	80,682	16,652	8,479	29,565	302,443	1,288,979	23.5%
2004/05	111,697	71,629	7,487	98,158	19,190	12,888	33,931	354,978	1,428,092	24.9%
2005/06	126,416	87,326	12,278	114,352	20,507	18,303	38,013	417,195	1,585,985	26.3%
2006/07	141,397	120,112	15,291	134,463	21,845	23,697	38,744	495,549	1,810,665	27.4%
2007/08	169,539	141,636	20,585	150,443	23,741	26,470	40,401	572,815	2,067,935	27.7%
2008/09	**196,068**	**167,203**	**20,018**	**154,343**	**24,884**	**22,751**	**39,833**	**625,100**	**2,318,841**	**27.0%**

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Table 7: Percentage contribution to tax revenue

Year	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue
2003/04	32.81	20.40	2.03	26.68	5.51	2.80	9.77	100.00
2004/05	31.47	20.18	2.11	27.65	5.41	3.63	9.57	100.00
2005/06	30.30	20.93	2.94	27.41	4.92	4.39	9.11	100.00
2006/07	28.53	24.24	3.09	27.13	4.41	4.78	7.82	100.00
2007/08	29.60	24.73	3.59	26.26	4.14	4.62	7.06	100.00
2008/09	31.37	26.75	3.20	24.69	3.98	3.64	6.37	100.00

An overview follows of the trends in the principal tax types.

Personal income tax – including interest

PIT comprises all assessed and provisional taxes as well as PAYE paid by individuals (net of refunds).

Table 8: PIT including interest 2003/2004 to 2008/2009

	PIT	Y/Y change	% of tax revenue	% of GDP
Year	R million	%		
2003/04	99,220	4.5	32.8	7.7
2004/05	111,697	12.6	31.5	7.8
2005/06	126,416	13.2	30.3	8.0
2006/07	141,397	11.9	28.5	7.8
2007/08	169,539	19.9	29.6	8.2
2008/09	196,068	15.6	31.4	8.5

PIT contributions to total tax revenue declined from 32.8% in 2003/2004 to 31.4% in 2008/2009, reaching a low of 28.5% in 2006/2007. Although there has been significant growth in employment numbers and remuneration levels, the decline in PIT contributions to total tax revenue could partly be attributable to the tax relief over the years as well as increased CIT contributions.

Corporate income tax – including interest

CIT comprises all provisional and assessed taxes paid by companies (net of refunds).

Table 9: CIT including interest 2003/2004 to 2008/2009

	CIT	Y/Y change	% of tax revenue	% of GDP
Year	R million	%		
2003/04	61,712	9.6	20.4	4.8
2004/05	71,629	16.1	20.2	5.0
2005/06	87,326	21.9	20.9	5.5
2006/07	120,112	37.5	24.2	6.6
2007/08	141,636	17.9	24.7	6.8
2008/09	167,203	18.1	26.7	7.2

The rate at which CIT collections grew dropped in 2003/2004, as a result of slower economic growth.

Collections increased substantially from 2004/2005 onwards as a result of strengthening economic growth, a stable exchange rate and prevailing low interest rates which started rising only during the 2007/2008 year.

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio from 4.8% in 2003/2004 to 7.2% in 2008/2009, and a contribution of 26.7% to total tax collections in 2008/2009 – the latter being considerably higher than the average 20% recorded between 2003/2004 and 2005/2006.

Secondary tax on companies (STC)

STC refers to the tax paid on profits distributed by companies.

Table 10: STC 2003/2004 to 2008/2009

	STC	Y/Y change	% of tax revenue	% of GDP
Year	R million	%		
2003/04	6,133	-3.1	2.0	0.5
2004/05	7,487	22.1	2.1	0.5
2005/06	12,278	64.0	2.9	0.8
2006/07	15,291	24.5	3.1	0.8
2007/08	20,585	34.6	3.6	1.0
2008/09	20,018	-2.8	3.2	0.9

STC collections have increased year-on-year since 2004/2005 mainly due to higher corporate profits in the context of improved economic conditions, resulting in companies revising dividend policies and increasing distribution of corporate earnings, especially in the resource and financial sectors.

STC contribution to tax revenue declined from 3.6% in 2007/2008 to 3.2% in 2008/2009 partly due changes in legislation to lower the STC rate from 12.5% to 10%. Similarly the contribution to GDP ratio declined from 1.0% in 2007/2008 to 0.9% in 2008/2009.

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Value-added tax

VAT is a tax levied on the supply of goods and services by registered vendors as well as on imported goods and services. In principle, VAT refunds are made to a vendor if the VAT paid by the vendor to its suppliers (termed input tax) is greater than the VAT levied (termed output tax) by the vendor on goods and services supplied to its customers.

Table 11: Total VAT 2003/04 to 2008/09

Total VAT

	VAT	Y/Y change	% of tax revenue	% of GDP
Year	R million	%		
2003/04	80,682	15.0	26.7	6.3
2004/05	98,158	21.7	27.7	6.9
2005/06	114,352	16.5	27.4	7.2
2006/07	134,463	17.6	27.1	7.4
2007/08	150,443	11.9	26.3	7.3
2008/09	154,343	2.6	24.7	6.7

Table 12: Components of VAT 2003/04 to 2008/09

Composition of VAT

	Domestic VAT	Import VAT	Refunds	Total
Year	R million	R million	R million	R million
2003/04	96,405	36,947	-52,670	80,682
2004/05	110,167	43,466	-55,475	98,158
2005/06	125,756	50,261	-61,665	114,352
2006/07	144,884	66,917	-77,338	134,463
2007/08	171,619	77,929	-99,105	150,443
2008/09	187,171	92,010	-124,838	154,343

Customs duty

Customs duty refers to all duties paid on the importation of goods as guided by the tariff codes.

Table 13: Customs duty 2003/2004 to 2008/2009

	Customs Duty	Y/Y change	% of tax revenue	% of GDP
Year	R million	%		
2003/04	8,479	-9.1	2.8	0.7
2004/05	12,888	52.0	3.6	0.9
2005/06	18,303	42.0	4.4	1.2
2006/07	23,697	29.5	4.8	1.3
2007/08	26,470	11.7	4.6	1.3
2008/09	22,751	-14.0	3.6	1.0

The steady growth in customs duty as a percentage of tax revenue peaked at 4.8% in 2006/07 and declined to a ratio of 3.6% in 2008/2009 as imports fell. As a percentage of GDP, customs duty increased from 0.7% in 2003/2004 to 1.0% in 2008/2009.

Tax relief and rates

Tax relief

The benefits of tax reforms have become tangible for taxpayers in the form of personal income tax relief that reduced the relative contribution of PIT from a high of 42.9% of total tax revenue in 1999/2000 to 31.4% in 2008/2009. Total tax revenue as a percentage of GDP increased from 22.9% in 1994/1995 to 27.0% in 2008/2009.

Over the past six years, more than R68.8 billion in tax relief has been granted to the South African public.

Individual taxpayers have enjoyed tax relief of R53.3 billion, while corporations have been given relief of R12.8 billion. Table 14 below sets out the tax relief over this period.

Table 14: Summary of effects of tax proposals 2001/2002 to 2008/2009

Year (R million)	DIRECT				INDIRECT				Total Relief
	PIT	CIT	Other	Total	Excise	Fuel Levy	Other	Total	
2001/02	-8,308	-	-1,011	-9,319	779	363	-878	264	-9,055
2002/03	-14,855	-335	-204	-15,394	663	-	-434	229	-15,165
2003/04	-13,427	-2,060	-	-15,487	907	642	-1,119	430	-15,057
2004/05	-4,062	-	-	-4,062	1,453	909	-600	1,762	-2,300
2005/06	-7,110	-2,000	-1,477	-10,587	1,310	950	-1,054	1,206	-9,381
2006/07	-12,125	-2,400	-440	-14,965	1,370	-	-5,532	-4,162	-19,127
2007/08	-8,870	-	-5,785	-14,655	1,395	950	-90	2,255	-12,400
2008/09	-7,700	-6,200	-1,200	-15,100	1,350	1,250	2,000 **	4,600	-10,500

Note: ** The electricity levy was not introduced in 2008/09

Table 15: Maximum marginal tax rates

From - Until	PIT*	CIT	STC	VAT	RFT
01/04/02-28/02/03	40%	30%	12.5%	14%	25%
01/03/03-31/03/03	40%	30%	12.5%	14%	18%
01/04/03-31/03/04	40%	30%	12.5%	14%	18%
01/04/04-31/03/05	40%	30%	12.5%	14%	18%
01/04/05-28/02/06	40%	29%	12.5%	14%	18%
01/03/06-31/03/06	40%	29%	12.5%	14%	9%
01/04/06-28/02/07	40%	29%	12.5%	14%	9%
01/03/07-30/09/07	40%	29%	12.5%	14%	0%
01/10/07-31/03/08	40%	29%	10.0%	14%	0%
01/04/08-31/03/09	40%	28%	10.0%	14%	0%

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

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Personal income tax rates

In the 2008 Budget speech, relief for individuals during the 2008/2009 tax year was announced. The relief was provided in the form of increases in both the primary and secondary rebates and the upward adjustments across the income brackets.

Table 16: Tax rates for individuals 2008/2009

TAX RATES FOR INDIVIDUALS 2008 / 2009								
TAXABLE INCOME				RATES OF TAX				
	R			R				R
0	-	122 000				18%	of each R 1	
122 000	-	195 000		21 960	+	25%	of the amount above	122 000
195 000	-	270 000		40 210	+	30%	of the amount above	195 000
270 000	-	380 000		62 710	+	35%	of the amount above	270 000
380 000	-	490 000		101 210	+	38%	of the amount above	380 000
490 000	-	and above		143 010	+	40%	of the amount above	490 000
REBATES OF TAX	*Primary*							*8 280*
	Age 65 and over (additional to primary rebate)							*5 040*
TAX THRESHOLD	*Below the age of 65*							*46 000*
	Age 65 and over							*74 000*

Cost of Revenue Collection

Table 17: Cost of revenue collection from 2006/07 to 2008/09.

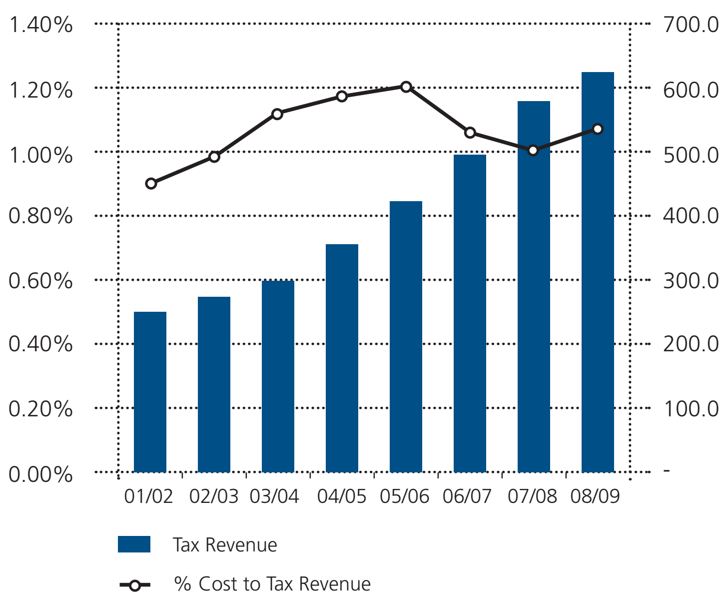
DETAILS			2006/07	2007/08	2008/09
Tax Revenue	**A**	**Rm**	**495,549**	**572,815**	**625,100**
% Increase Year - on - year			18.8%	15.6%	9.1%
Net Revenue	**B**	**Rm**	**484,113**	**565,297**	**615,930**
% Increase Year-on-year			18.1%	16.8%	9.0%
Operational Cost including depreciation	**C**	**Rm**	**5,156**	**5,608**	**6,443**
% Increase Year-on-year			0.4%	8.8%	14.9%
Capex	**D**	**Rm**	**322**	**438**	**633**
Cost including Capex	**E**	**Rm**	**5,478**	**6,046**	**7,076**
% Increase Year-on-year			0.20%	10.38%	17.02%
% Cost to Tax Revenue	(C/A)		1.04%	0.98%	1.03%
% Cost including Capex to Tax Revenue	(E/A)		1.11%	1.06%	1.13%
% Cost to Net Revenue	(C/B)		1.07%	0.99%	1.05%
% Cost including Capex to Net Revenue	(E/B)		1.13%	1.07%	1.15%

SARS collected Tax Revenue of R625.1 billion at a cost of 1.03 cents per rand generated excluding capital expenditure, compared with a cost of 0.98 cents in 2007/08. The slight increase in cost of collection is partly due to the lower growth in revenue collections and more robust processes implemented to collect the revenue in response to market conditions.

The processes are designed to ensure that our core business units are resourced to better respond to the challenges and risks posed by the financial strain currently being experienced, and to continue on course with our modernisation programme, which is expected to significantly impact on our business next year and thereafter.

These changes are designed to ensure that SARS performs optimally to meet the challenges of rising volumes and demands on its resources.

Figure 2: Tax Revenue and cost of revenue from 2001/02 to 2008/09



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Tax Register

Table 18: Taxpayer base

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Register (Forecast)				
Register	Number			
Companies	#	1,781,549	1,834,009	
Individuals	#	5,595,563	5,540,646	Pg 32
Trust	#	410,948	392,260	Pg 32
VAT	#	810,612	737,885	Pg 32
PAYE	#	409,601	393,974	Pg 33
No. of Importers	#	217,419	228,350	
No. of Exporters	#	197,035	194,286	

Income tax for individuals

The register for individual taxpayers grew at 6.45% during the year under review. This growth was mainly driven by new entrants to the job market and by taxpayers who had finally breached the registration ceiling set at an income of at least R60 000 a year. The rate of growth however moderated in 2008/09 and this can be attributed to the adverse impact the global economic crisis has had on the domestic economy, affecting key industries and giving rise to job losses and limited opportunities in the labour market.

Another factor that may have had an impact on registrations was the introduction of the R120 000 threshold for the submission of tax returns in the 2008 Filing Season. Some taxpayers may have misunderstood this to mean that they need not register for tax. Going forward, SARS will be able to identify such individuals through the new PAYE process and remedy the situation.

Trusts

The rate of registration of trusts has dropped over a number of years – 12.5% (2004/2005), 8.1% (2005/2006), 8.6% (2006/2007) and 2.8% (2007/2008). This could reflect a change as far as financial planning via trusts is concerned.

VAT

The VAT register has decreased by 1%. This was due to a register clean-up project initiated by SARS and to the slowdown in the economy.

The 2008/2009 VAT register stood at 737 885, compared to the 2007/2008 register of 745 487. In the current economic climate new business ventures have been slow to emerge due to stricter lending practices from local banks. Lower consumer demand in this period also helped to stifle new business.

PAYE

The PAYE register grew by 3.8% year on year. The slowdown in the rate of growth can be attributed to the poor economic condition. SARS also undertook a register clean-up project which aim is to identify and remove from register, those entities that are no longer active. This activity further reduced the growth rate of the register.

IMPROVE TRADE ADMINISTRATION AND BORDER SECURITY

Table 19: Customs targets and achievement

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Imports BOE		2,975,114	2,173,108	Pg 33
Exports BOE	#	3,675,114	2,940,294	Pg 33
Permits Administered	#	24,908	25,050	
No. of Containers	#	4,639,842	3,796,978	Pg 34
*Payments Customs	#	6,271,018	-	
Passenger movement	#	15,425,328	32,596,593	
Vehicle movement	#	3,001,604	3,405,986	
Imports	#	1,398,509	1,801,953	
Exports	#	1,603,095	1,604,033	

*The number of **Customs payments** is not a business priority and will therefore no longer be tracked.

The Service Charter prescribes the acceptable processing turnaround time on Customs Bills of Entry: these range from two to 48 hours depending on the entry channel (EDI or manual) and the declaration purpose (import, export or Southern African Customs Union (SACU)). There was no performance shortcoming in this area as all entries received were processed within the prescribed time frame.

In terms of **Imports and Exports BOE**, registration for transacting with Customs either as an Importer or Exporter is voluntary. Only registered traders can transact with Customs. There is therefore no strategic drive to get traders to be registered with Customs.

The overall use of electronic channels has improved by about 10% year-on-year, bringing average EDI uptake for international transactions to about 77% (88% for imports and 64% for exports) and SACU transactions to 15% (1% for import movements and 29% for export movements).

Although there was a slight increase in EDI uptake over the past year, especially with regards to exports, our electronic service turnaround time appears to offer little incentive to SACU traders as the manual process seems

PART 2: PERFORMANCE OVERVIEW - cont.

to be their preferred method. This low uptake is further exacerbated by the fact that 80% of SACU clients have minimal transactions and therefore do not realise the value of EDI use. Legislation promulgating mandatory electronic submission was passed on 1 October 2008 and has improved the situation slightly; more significant improvements can be expected in 2009/2010.

Number of containers is an indication of trade activity within the main South African Sea ports (Durban, Port Elizabeth, East London, Cape Town and Richards Bay). It is therefore rather a capacity planning volumetric than a performance indicator.

IMPROVE TAXPAYER / TRADER EXPERIENCE

Table 20: Service volumes

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Service Volumes				
	Number			
Registration	#	904,826	972,261	
Deregistration	#	385,144	240,526	Pg 35
Calls answered	#	6,538,094	5,924,894	Pg 35
Taxpayer / Trader visits (Branch Offices)	#	4,109,748	3,678,811	Pg 35
Queries handled	#	8,650,465	6,098,309	Pg 35
Correspondence handled	#	15,867,371	-	Pg 35
IT refunds processed	#	1,388,519	1,905,933	
VAT refunds processed	#	709,361	714,148	
Turnaround time on Customs refunds	days	30	30	
Standards				
Return Throughput	Percentage			
% IT returns processed within 34 working days - non-peak	%	80	92	
% IT returns processed within 90 working days - peak	%	80	98	
% IT refunds processed within 30 days	%	95	83	Pg 36
% VAT refunds processed within 21 days	%	97	81	Pg 36
% Revised Assessments	%	8	12	Pg 36
Inventory at year-end as a % of throughput	%	7	10	Pg 36
Call Centre				
% Calls answered in 20 seconds	%	80	53	Pg 36
Call abandonment rate	%	6	12	Pg 36

Service Volumes:

A project to clean up the tax register by deregistering taxpayers who no longer met the requirements for registration due to a variety of reasons was initiated in 2007/08. It was continued in the year under review. An end-to end process to deal with **deregistrations** was implemented and this enabled SARS to deregister 240,526 taxpayers. Despite the efforts to eradicate the backlog, the anticipated volumes have not been realised.

SARS's call centre experienced a 20% increase in the number of **calls answered** when compared to the previous year (5 924 894 calls in 2008/09 compared to 4 493 266 in 2007/08). This was 9% below the anticipated volume.

With respect to taxpayers visiting branches a high level of first-time contact/query resolution and a high level of first time contact/query resolution (96.3%) and level of adherence to the 10-minute average service time was recorded. The number of taxpayers who visited SARS branches fell by 2% to 3,678,811 when compared to the figure for 2007/08.

This is in line with SARS's intention to decrease taxpayers visits by promoting other channels like the call centre, mobile units etc. The successful implementation of the modernised PAYE reconciliation process which enabled SARS to pre-populate the returns of taxpayers also helped stem visits to our offices.

SARS's performance regarding **queries handled** is below target by 30% for the period under review. The total number of queries handled increased by 20% compared with the previous year (4 887 930 queries in 2007/08 and 6 098 309 in 2008/09).

Correspondence handled is a legacy measurement that has been replaced with the implementation of Service Manager e-Track. This is part of the bigger Modernisation agenda. The roll-out of e-Track is a phased implementation and therefore no comprehensive report on all correspondence handled can be given. The complete roll-out of e-Track is part of the priorities for 2009/10.

Service Standards:

Income tax returns processed within 34 days – The target was exceeded by 9% due to increased use of electronic channels, encouraged by the extended submission periods for electronic submissions and complemented by the modernisation systems which facilitate swifter processing.

The capacity within the scanning channel also led to greater throughput volumes. The successful employer filing season further enabled the division to finalise mismatch cases within a time period that did not impact on the overall processing time.

PART 2: PERFORMANCE OVERVIEW - cont.

Income tax returns processed within 90 days - The multiple channels introduced for processing of income tax returns significantly increased processing speed, thereby exceeding the performance target by 8%. This achievement was underpinned by a positive taxpayer experience.

Income Tax refunds processed within 30 working days – These include refunds stopped for audit and all other refunds released. Refunds paid without audit intervention resulted in 94% being released within 5 days, thereby significantly exceeding taxpayer expectations. The combined refunds processing target of 95% has had an under achievement of 12% due to audit intervention.

VAT refunds processed within 21 days – 81% of refunds were released within a 21 day period, as different role players, including taxpayers are involved in this process. In many instances the release of the refund is dependent on the timeous responses of taxpayers, which resulted in an underachievement of 16% of target.

Income tax revised assessments processed - The introduction of a new process enables taxpayers to submit a revised declaration and a request for corrections. The automation of these processes and improved controls have reduced the turnaround time. 12 % of assessments have been revised against a target of 8%.

Inventory at year-end as a % of throughput - The extended Filing Season date compared to the previous years impacted negatively on the inventory at year-end as a percentage of throughput.

Calls answered within 20 seconds – The spike in the volume of calls, especially during peak periods around filing deadlines, contributed to the underachievement of the target.

Call abandonment rate – 12% of calls were abandoned. The increase in call volumes around the filing deadlines contributed to the underachievement of the target.

IMPROVE COMPLIANCE AND RISK REDUCTION

Table 21: Compliance actions

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Compliance Actions				
	Number or Percentage			
No. of Audits	#	70,120	72,926	
No. of Criminal prosecutions	#	550	518	Pg 37
No of summons issued	#	75,000	80,419	
No. of Post Clearance Inspection Audits	#	2,936	2,718	Pg 38

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Compliance Actions				
No. of Passengers stopped	#			
Inbound Passengers	#	350,000	353,889	
Outbound Passengers	#	330,000	273,963	Pg 38
No. of Seizures	#	4,316	7,951	
Debt reduction as % of Revenue	%	10	9.8	Pg 38
Outstanding Returns reduction	%	5	-29.85	Pg 38
No. of Tax Entities profiled	#	7,535	7,148	Pg 37
No. of Cargo Stops				
Imports	#	100,000	68,432	Pg 38
Exports	#	108,400	81,456	Pg 38
Effectiveness of Compliance Actions				
	Percentage			
Audit coverage ratio	%	1	1.04	
Success rate of investigative audits	%	70	78	
Success rate of criminal cases/prosecutions	%	95	99	
Success rate of stops				
Imports Cargo (International)	%	25	34	
Imports Cargo (SACU)	%	15	18	
Exports - Cargo (International)	%	30	38	
Exports - Cargo (SACU)	%	8	13	
Imports - Passengers & Vehicles	%	2% primary inspection	1.8	Pg 38
Imports - Passengers & Vehicles	%	50% secondary inspection	50	
Exports - Passengers & Vehicles	%	5	9	
PCI Audit success ratio	%	50	59	

The audit coverage ratio for the 2008/2009 financial year was at 0.94% against a tax base of 7.7 million taxpayers, which represents 72 926 audits. The strategy adopted an equitable coverage model in respect of segments, tax types, sectors, types of non-compliance and geographical areas, which allowed a risk-based approach to audit case selection. The number of interventions was determined by the compliance level of the segments, which was informed by historical analysis and identified risks.

The success rate of enforcement cases is used as an indication of improved compliance. A target of 70% was met with an actual achievement of 78%. The improved hit rate on investigative cases is attributed to improved case selection, the strengthening of end-of-function inspections, and improved governance.

Number of Tax Entities profiled: 7,148 tax entities were profiled and transferred to Enforcement against a target of 7,535. This is an under achievement of 5%.

PART 2: PERFORMANCE OVERVIEW - cont.

Criminal prosecutions – Prosecutions are dependent on the availability of prosecutors and courts. SARS was successful in the prosecution of 518 cases with 339 investigations conducted.

The outstanding return book - increased by 29.85% against the target of 5%. The increase is due to the late inflow of 3.1 million 2008 returns. If this late inflow is excluded, a reduction of 18.28% is indicated. A project team which became operational during the second quarter focused on 93 615 cases with the aim of finalising 60% of them by 31 March 2009. The project team achieved a case and return reduction of 67.09% and 59.58% respectively, which was a big contributor to the overall division's reduction.

In terms of **outstanding returns**, 80 419 summonses were issued against a target of 75 000, exceeding the target by 7%. This can be attributed to the focus on multiple offenders and the improvement in the number of Notice of Intention to Summons issued to taxpayers.

During the year under review SARS achieved a **debt reduction** of 9.81% of revenue. The total debt book was reduced by R1.4 billion (2.24%). The main contributors were a decrease in CIT debt and VAT debt. This was due to significant payments received, adjustments and write-offs on various cases.

Number of outbound passengers decreased in the year under review due to the economic climate.

With regards to number of **Post Clearance Inspection Audits**, the focus has been on more complex risk based cases.

Overall Audit performance resulted in:

- 55% success rate achieved in risk based cases
- 40% success rate achieved in regulatory inspections
- 74% of debt collected from previous years.

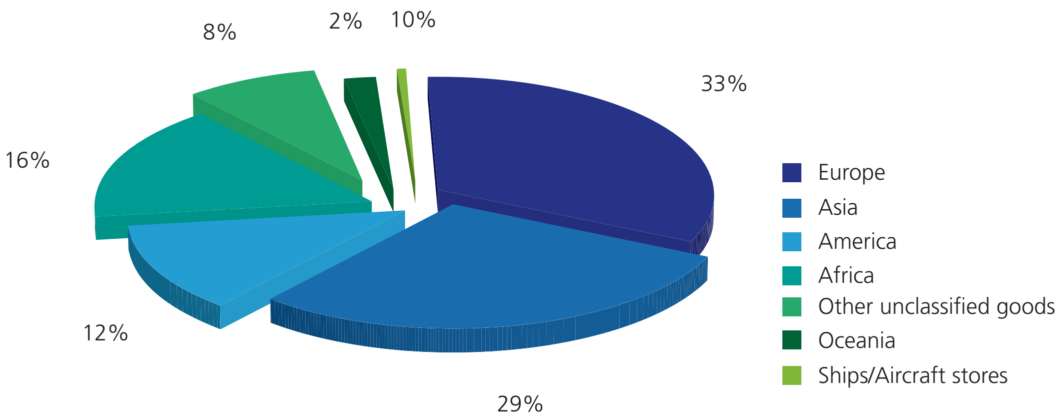
The progressive total value for exports was R663.1 billion and R 727.6 billion for imports, resulting in a trade deficit of R64.5 billion. The deficit is R5.4 billion less than that of 2007. Overall these figures represent a year -on-year value increase of 34.98% for exports and 29.66% for imports. Further details are depicted below.

Stops: Stopping is based on risk identified. This allows Customs to deploy its resources effectively and to facilitate legitimate trade. The variance between the targeted stops and actual stops is thus attributable to import and export declarations that were not perceived to be risky.

Table 22: Trade according to world zones

EXPORTS				
	2007	2007	2008	2008
	Rm	% of Total	Rm	% of Total
Europe	161,299	32.8%	216,512	32.7%
Asia	140,631	28.6%	194,043	29.3%
America	69,254	14.1%	81,590	12.3%
Africa	67,477	13.7%	103,925	15.7%
Other Unclassified Goods	42,878	8.7%	52,859	8.0%
Oceania	9,901	2.0%	13,481	2.0%
Ships/Aircraft Stores	528	0.1%	686	0.1%
Total	491,970	100.0%	663,099	100.0%

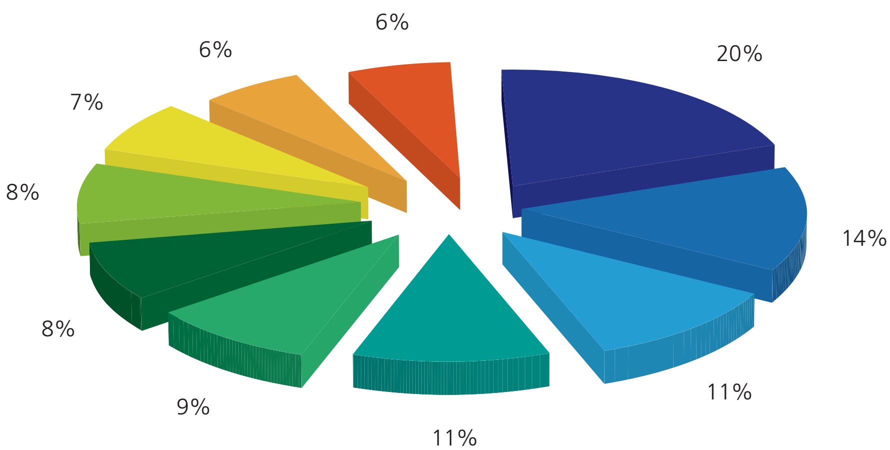
Figure 3: Trade according to world zones 2008



Europe, with 33% of total exports, was the largest world zone trader for the export of goods in both 2007 and 2008. Asia was at 29% for both years, followed by America with 14% for 2007 and 12% for 2008. While exports to Europe stayed at the same level in 2007 and 2008, they rose for Asia and Africa.

PART 2: PERFORMANCE OVERVIEW - cont.

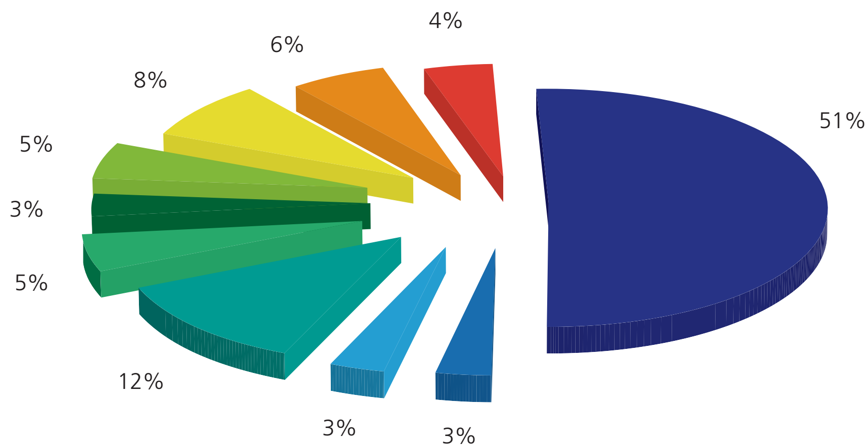
Figure 4: Leading export products



- Gold = R48.5bn
- Bituminous coal = R36.8bn
- Platinum: Unwrought or in powder form = R29.3 bn
- Ferro-chromium: Containing by mass more than 4 per cent of carbon = R27.9 bn
- Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases: OTHER = R24.2 bn
- Platinum: OTHER = R21.5 bn
- Motor cars and other motor vehicles principally designed for the transport of persons, of a cylinder capacity exceeding 1 500 cm³ but not exceeding 3 000 cm³ : OTHER = R21.4 bn
- Unwrought aluminium R19.1 bn
- Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese content of 20 per cent or more, calculated on the dry mass = R15.5 bn
- Rhodium: Unwrought or in powder form = R15.5 bn

Coal exports increased the most. New export commodities to make it to the Top 10 in 2008/2009 include ferrochromium, unwrought aluminium and manganese ores.

Figure 5: Leading import products



- Petroleum oils and oils obtained from bituminous minerals, crude = R124.4 bn
- Original equipment components: For motor vehicles for the transport of goods of heading 87.04, of a vehicle mass exceeding 2 000 kg = R7.9 bn
- Original equipment components: For motor vehicles for the transport of goods of heading 87.04, of a vehicle mass not exceeding 2 000 kg = R7.5 bn
- Original equipment components: For motor cars (including station wagons)= R29.4 bn
- Motor cars and other motor vehicles principally designed for the transport of persons, of a cylinder capacity exceeding 1 500 cm³ but not exceeding 3 000 cm³ : OTHER = R12.0 bn
- Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus: OTHER= R7.5 bn
- Telephones for cellular networks or for other wireless networks = R11.5 bn
- Gold: Other unwrought forms = R20.2 bn
- Medicaments, OTHER = R8.6 bn
- Distillate fuel = R14.7 bn

Imports of petroleum oils and gold imported for refining purposes increased the most in 2008, while imports of motor vehicles and components dropped significantly.

PART 2: PERFORMANCE OVERVIEW - cont.

Containerised cargo in our main ports has declined and testifies to the current economic climate in the world. These volumes are set to decline even further over the coming period. Interestingly, there was an increase in container throughput in East London and Richards Bay.

Customs' risk intervention on entries selected for checking yielded an overall success average of 26% (composed of 30% success with international imports, 39% for international exports, 16% and 12% for SACU import and export movements). The high success rate with international import and export cargo is an indication of high levels of non-compliance by certain traders.

Seizures: A total of 7 951 seizures were made during 2008/2009, an increase of 23% from last year, indicating a rise in the number of prohibited and restricted goods contraventions. The main contravention categories were contraband cigarettes, counterfeit cigarettes, counterfeit goods, drugs and medicaments. The table below shows some of the contravention trends.

Table 23: Customs contravention trends

Product Type	2007/2008		2008/2009	
	Number	R Value	Number	R Value
Contraband Cigarette Seizures	2 751	170,222,637	2725	203,603,387
Counterfeit Cigarettes	95	1,395,490	99	12,728,065
Counterfeit Goods	1 083	333,303,932	731	379,622,919
Narcotics	332	890,447,961	207	364,797,661
Medicaments	1 083	5,940,095	1026	5,082,459
TOTALS	**5 344**	**1,401,310,115**	**4788**	**965,834,491**

The values for narcotics are high for 2007/2008 because in February 2008 there was a heroin seizure to the value of R749m whereas in 2008/2009 the amount of heroin seizures detected amounted to R6.3m for the entire year.

GREATER OPERATIONAL EFFICIENCIES

2007/2008 marked the first year of execution of the Modernisation Agenda which was aimed at fundamentally changing the way in which SARS operates. One of the programmes focussed on transforming the income tax process from a complex paper based and labour-intensive process to a simplified automated and electronic avenue.

The following impacts on the business and processing benefits were achieved as a result of the modernisation efforts:

Table 24: Returns processed in first 27 weeks of filing, 2007/2008 and 2008/2009

Comparison: First 27 weeks of filing season	2007	2008	% Change
Income tax returns assessed	2 352 647	3 293 991	40.01%
Income tax returns received	3 283 690	3 714 658	13.12%
Income tax returns received manually	2 044 550	633 352	-69.02%
Income tax returns received via BFE	718 535	1 075 046	49.62%
Income tax returns received via eFiling	445 101	1 856 646	317.13%
Turnaround time: one day (in %)	13%	62%	383.16%

The assessment programme introduced a significant amount of change to the SARS operating model. That it was implemented on time, within budget and without causing any major operational disruption is testament to the abilities of all involved.

Over the past three years, SARS has been able to increase the number of registered users from about 500 000 at the end of the 2006 financial year to just over 5 million at the end of the 2009 financial year – up by more than 1 000%. The number of returns submitted has grown from about 1.5 million per annum in 2006 to about 7 million in 2009 – nearly 500%.

The assessment amounts processed by eFiling have risen from around R100 billion in 2006 to approximately R382 billion in the period under review – an increase of approximately 375%. The percentage of eFiled returns is up from 8% to 44% of total returns and the percentage of electronic assessments to total revenue have increased from 24% to 61%. At the same time, an independent survey – Tax Season Research Survey 2008 – has shown significant improvements in taxpayer satisfaction. An overall result of 83% was achieved.

Table 25: Processing targets and actuals

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Processing				
Processing	Number			
PIT Returns	#	5,091,963	3,951,534	Pg 44
CIT Returns	#	1,558,976	587,719	Pg 44
VAT Returns	#	4,021,856	4,272,620	
PAYE Returns	#	4,215,867	4,273,038	
Electronic Volumes				
Total e-Filed Returns		4,047,640	6, 051, 136	
VAT	#	1,255,986	1,447, 967	
PAYE	#	1,554,492	1,738,557	
Provisional Tax	#	62,110	968,304	

PART 2: PERFORMANCE OVERVIEW - cont.

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Electronic Volumes				
PIT	#	1,092,281	1,643,380	
Trusts	#	114,916	93,779	Pg 45
Individuals	#	977,365	1,549,601	
CIT	#	82,771	252,928	
Companies	#	82,771	252,928	
eFiling Payments	#	3,160,065	2 002 327	
VAT	#	635,854	742,051	
PAYE	#	2,465,173	1,172,064	Pg 45
Provisional Tax	#	59,038	88,212	

PIT Returns

The projected volume of assessments to be raised takes into account the projected growth in the register. A direct link therefore exists between the non achievement of the growth rate and the reduced number of returns assessed.

The reduction in the annual PIT processing volumes can mainly be ascribed to the change in the submission criteria. Taxpayers with an income of R120 000, employed by a single employer and with no deductions were not required to submit returns.

CIT Returns

The number of Company returns received as at 31 March 2009 was 695 110 compared with 587 719 having been processed.

Enforcement reported that 80 419 summonses were issued for outstanding returns (all taxes). There was also an increase of 24% in the rate of non-submissions or incorrect submissions (page 38 of the Annual report).

These factors points to a trend of non compliance to possibly avoid the obligation of having to pay tax. Further to this, there are also statistics that indicate that insolvencies increased by 38.8% between Jan 08 and Jan 09 and liquidations increased by 69.5% from Feb 08 to Feb 09.

The fact that the company submission date depends on their financial year end date means that many companies are still due to submit their 2008 returns. Of the 587k submitted only 186k relate to the 2008 year of assessment. There is thus a timing difference to also take into account.

Trusts Returns

The size of the trust register was used as a basis to determine the expected inflow of returns. The reduced electronic submission rate could be due to certain trusts being removed from register thus the lower than expected inflow.

PAYE

The processing of PAYE returns exceeded the target by 1%. The anticipated volumes for PAYE have not been realised. Efforts are currently underway to confirm level of compliance where liability does not match the payments. Electronic channels are being promoted for all payments.

VAT

A higher level of compliance in submission rate has resulted in the target for processing of VAT returns being exceeded by 6%.

IMPROVE GOVERNANCE

Table 26: Governance, risk and compliance progress

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Develop credible enterprise-risk management and governance information for strategic and business processes. Continue to develop a robust governance framework, interrogating compliance with the regulatory environment and entrenching an operations management culture	Framework complete	March 2009	Completed	
Maintain a safe and secure workplace	% adherence to OHSA	Migrate to 100% adherence to OHSA over the next three years	Phase 1/Year 1 Completed	
Continue to update the SARS enterprise-wide strategic risks register	Register in place	March 2009	Completed	

PART 2: PERFORMANCE OVERVIEW - cont.

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Internal audit Develop and implement an audit plan based on highest risk areas	Audit Plan	March 2009	Completed	
Financial management - Ensure proper financial management	Audit report from Auditor-General	Unqualified audit opinion	Unqualified Report	
Ethics Continue to enhance the ethical behaviour in SARS	Implement annual plan	March 2009	Completed	
Security - Physical security – policies, standards, and norms	New policies in place	March 2009	Completed	
Information security – policies, standards, and norms	New policies in place	March 2009	Completed	

The governance, risk and compliance (GRC) functions are pivotal to good governance and are largely driven by statutory imperatives. In line with best practice, SARS endorses the principle that the whole of business and all its constituent parts are accountable for GRC. Recent incidences of governance failures globally both in the public and private sectors have highlighted the need for integrated approaches to governance, risk and compliance. GRC functions are incrementally being integrated in planning and budgeting processes.

The governance framework

The SARS Governance Framework was completed during March 2009. It outlines the SARS mandate, as well as the SARS design structure, through which strategic objectives are fulfilled. This framework serves as a focal point of the corporate governance system to ensure good governance by outlining accountability within the various SARS structures.

SARS enterprise-wide strategic risk register in place

The first iteration of the Strategic Risk Register was completed in June 2008. Since then, further iterations have been made with various chief officers heading up divisions. This resulted in revised definitions of the top 10 strategic risks. The rating of the current risks has been adjusted in order to bring them in line with prevailing and unfolding economic and social conditions.

Financial Management

The finance division provides financial and management accounting services to SARS. It comprises accounting services (expenditure accounting, revenue accounting, management accounting, and financial transformation) and "partnerships" with business units (tax and customs operations, enforcement and support services).

The overall strategy of the division is to be a strategic partner and value creation enabler, that supports the attainment of the corporate strategy and objectives and which balances the role of strategist and steward in delivering world-class financial performance.

ENHANCING HUMAN CAPACITY (RESOURCE PLAN FORECAST)

Table 27: Employee headcount and budget 2008/2009

KEY PERFORMANCE INDICATOR (KPI)	METRICS	TARGET	ACHIEVEMENT	REASON FOR VARIANCE
Number or rands				
Total Number of Employees (incl Temps)	#	15,702	15,307	Pg 47
Permanent	#	15,245	14,751	
Temporary	#	457	556	
Budget	Rm	6,883	6,929	Pg 47

A moratorium was placed on the filling of vacancies from August 2008 to enable the re-organisation / realignment process as per the new operational model, which impacted on the headcount growth.

The budgeted expenditure of R6 883 million was set at the beginning of the 2008/09 financial year. During the course of the year, this budgeted expenditure gradually increased due to such factors as an increase in interest income due to higher interest rates, and the higher-than expected roll-over cash from the prior year. Such additional revenue allowed SARS to spend R6 929 million, R46 million higher than the originally set budget expenditure.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE

HUMAN RESOURCES

Overview

In 2008/2009 the Human Resources (HR) division contributed substantially to the success of SARS by proactively supporting SARS to attract, fully engage, develop and retain a valuable workforce.

Performance highlights

- Structures at executive and senior management levels were realigned with the newly adopted operating and leadership model. An initiative was implemented to find the best fit between job requirements and the skills of senior managers (the "goodness of fit") initiative. A leadership development programme at senior, middle management and team leader level was piloted with 110 employees
- A career model has been designed and is representative of all the roles required for SARS to deliver on its strategic goals. This will help develop the required professional skills of staff
- Full implementation of the Amakhwezi Formal Recognition Programme for the enhanced recognition of exceptional behaviour aligned to the SARS values. During 2008/2009, 662 team nominations and 3 671 individual nominations were made
- SARS was a finalist at the South African Association Awards as a result of its performance management and recognition system
- The uptake of the core counselling and advisory services of the SARS Wellness Programme increased to 22.2% for 2008/2009, a significant increase from the 15.7% uptake of the previous year
- The employment equity target was reached (66.8%). The disability profile also improved substantially to 2.4%
- Phase I of the SARS HR management system (SAP HR) was successfully implemented, giving SARS sound employee and organisational HR information
- There has been a marked improvement on the employee engagement index through an integrated programme of action and interventions
- Business has been supported through change management training and placement protocols

Workforce profile

The employee headcount at SARS at the end of March 2009 was 14 751 employees (not including 556 temporary employees),

Table 28: Employee headcount

	Actual (31 March 2009)
Permanent Employees	14 751
Temporary Employees	556
Employee Total (incl. Temps)	**15 307**

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

The moratorium that was placed on the filling of vacancies from August 2008, to enable the re-organisation and re-alignment process as per the new operational model, impacted on the headcount growth, with an increase of only 203 employees since April 2008.

In total 1 176 new appointments were made and only five employees reinstated as a result of employee relations procedures, compared with staff attrition of 978 employees, resulting in a positive net growth of 1.35% (203 employees). Table 29 illustrates the attrition and recruitment rates.

Table 29: Nett staff turnover

External Recruitment	Reinstatements	Attrition (exits)	Attrition Rate (Exits) YTD	Recruitment Rate (YTD)	YTD Net Staff Turnover %
1 176	5	978	6.68%	8.03%	1.35%

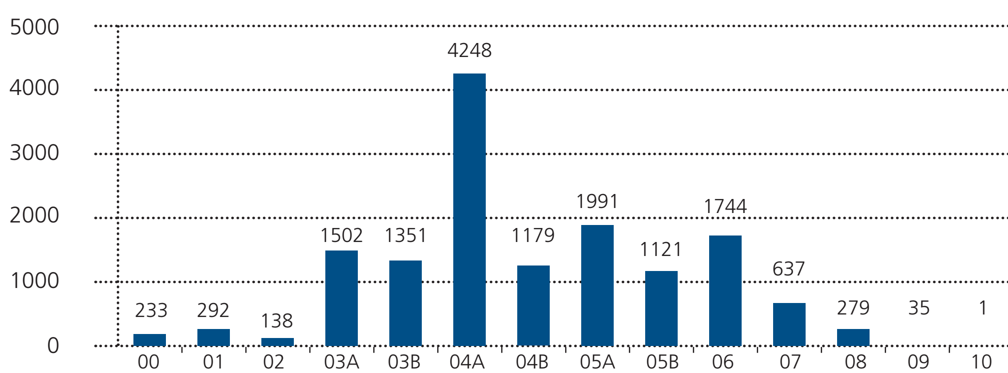
Note: Included in the above figures are the recruitment of 82 graduates and 150 Customs cadets.

The SARS employee profile for 2008/2009 is summarised as follows:

- 88.41% of employees were in core business operations
- 11.59% of employees were in support services
- The current average age of all SARS employees is 37 years compared with 36 in 2007/2008
- The average length of employees' service is 10 years
- 66.88% employees were black
- 63.19% of employees were female
- 2.4% of employees had a disability
- Nett staff turnover was 1.35%, with a nett growth of 203 employees
- The sick absenteeism rate was 1.78%, in comparison with 2.3% in the previous year (2007/2008). SARS's sick absenteeism rate is well within the norm, viz. 1.5% – 4% (Alexander Forbes). This means that sick leave is well managed within the organisation and the indirect financial cost of sick leave is minimised.

Distribution of workforce per grade is illustrated in Figure 6.

Figure 6: Grade Profile



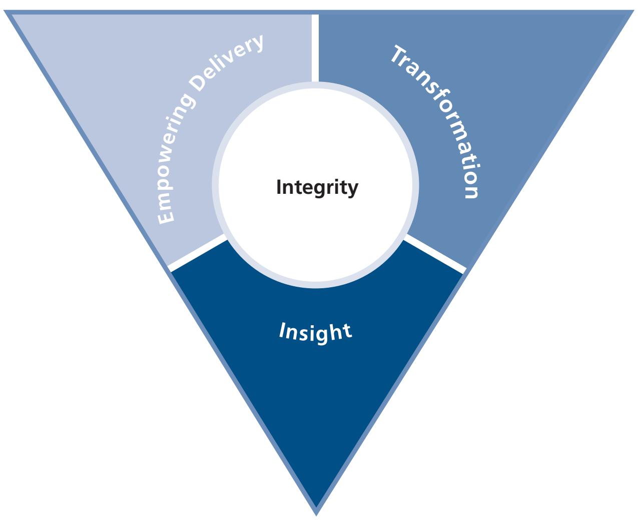
Note: Grade 00 refers to trainees

Skills and orientation

The leadership development programme architecture

In order to leverage the feedback from the "goodness of fit" process and career model assessments, SARS commissioned the design of the leadership development programme, based on identified developmental opportunities (focusing on team leaders, middle and senior managers). In 2008 a sample of about 110 managers formed part of the pilot group to customise the intervention to engage on this programme.

Along with other initiatives, the SARS leadership development programme seeks to contribute to improving several competencies as identified in the SARS Leadership Competency Framework. Below is the leadership model:



Higher Purpose and Integrity
- Championing the Mandate
- Responsibility for Social Impact

Empowering Delivery
- Driving Excellence
- Mobilising Teams

Transformation
- Developing others
- Building Sustainability
- Leveraging Diversity
- Influencing Others

Insight
- Conceptual Thinking
- Accurate Understanding
- Humility

Human resource systems

A human resource management system (SAP HR) was implemented as a replacement to the HR PeopleSoft IT system. Migration from the legacy system to SAP HR took place in August 2008. The following modules were implemented:

- Payroll – integration with the travel management and the SAP financial module
- Employee administration – management and hosting of specific information related to personnel enables employees and management to access up-to-date, consistent information that supports HR and business-related decisions
- Organisational management – manages and disseminates organisational structures; enables workflows; enhances HR reporting functionality

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

- Time management – facilitates effective time-management strategies; provides tracking, monitoring, record keeping and evaluation of time data; the time evaluation component will generate shift-related allowances according to the employee's personal work schedule rule
- Employee self-service – enables employees to create, view and modify personal data and manage routine HR tasks.
- Manager self-service – enables managers to access information and applications to perform budget and staffing tasks quickly and efficiently.

Employment equity and workplace diversity

SARS continues to place a high priority on employment equity as part of its transformation agenda, and strives to meet equity objectives in terms of race, gender and disability. To improve compliance with the letter and spirit of employment equity legislation, the Commissioner has appointed a chairperson for the National Employment Equity Committee and a senior manager for employment equity.

Over the past decade SARS has made significant strides in aligning the profile of its workforce to national demographics. Currently, women make up 63.19% (9 321 employees) of SARS staff and black women make up 39.29% (5 795 employees).

Overall employment equity workforce profile

The table below indicates the total number of designated employees in each of the occupational levels.

Table 30: Workforce Profile with regards to Employment Equity

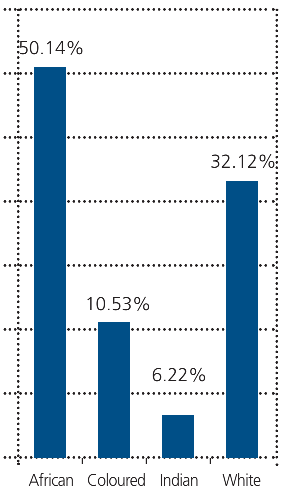
Workforce profile with regard to Employment Equity											
Occupational Levels	Designated*							Non Designated			Total
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W		M	F	
Top Management	8	4	4	5	2	0	2	10	0	1	36
Senior Management	216	42	72	107	19	40	169	242	4	5	916
Professionals	397	83	105	335	66	94	331	321	1	11	1744
Skilled and Junior	1885	338	191	2552	576	314	2248	655	7	6	8772
Semi-Skilled	508	90	28	1139	294	69	776	79	5	3	2991
Unskilled	81	19	0	163	20	0	0	8	0	1	292
Total	**3095**	**576**	**400**	**4301**	**977**	**517**	**3526**	**1315**	**17**	**27**	**14751**

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

Racial profile

The overall headcount percentages among the various racial sectors reflect 66.88% black (9 866) employees. The SARS's racial profile is illustrated in Figure 7.

Figure 7: SARS Racial Profile



Black workforce profile

The table below provides further details of the black (African, Indian and Coloured) workforce profile since 2004.

Table 31: Black Workforce

Percentage of Black Workforce from 2004-2009						
Staff Occupational Level	March 2004	March 2005	March 2006	March 2007	March 2008	March 2009
Management Staff	47%	51%	53%	54%	57%	59%
Supervisory Staff	44%	48%	57%	60%	61%	60%
General Staff	55%	58%	62%	65%	67%	69%
All Staff	**53%**	**56%**	**61%**	**63%**	**65%**	**67%**

There was an increase in black representation compared with 2007/2008, against the set target of 67%. The table above illustrates a steady increase in the representation of black employees since 2004 at management and supervisory levels.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Female workforce profile

SARS has a workforce that is 63.19% female (9 321 employees), against the target of 63%. The figure below provides further details of the female workforce profile since 2004.

Table 32: Female Workforce

Percentage of Female Workforce from 2004-2009						
Staff Occupational Level	March 2004	March 2005	March 2006	March 2007	March 2008	March 2009
Management Staff	37%	35%	40%	42%	42%	43%
Supervisory Staff	47%	45%	46%	47%	53%	53%
General Staff	70%	70%	71%	71%	70%	69%
All Staff	**65%**	**64%**	**65%**	**65%**	**64%**	**63%**

The table above illustrates a steady increase in the representation of female employees at the management level since 2004.

Disability profile

The disability profile figure represents all declared sources of information about employees with disabilities at SARS. The increase in disability representation – 1.47% (March 2008) to 2.4% (March 2009) – is due to an internal declaration drive during the year to encourage employees to declare their disability status, in strict confidentiality.

For the year under review, people with disabilities account for 2.4% (354) of the total workforce, of whom 49.52% are people with physical disabilities while 13.7% have sight, 21.88% hearing, 14.80% have other forms of disabilities. The following graphs illustrate the representation of people with disabilities since 2001/2002.

Figure 8: Representation of people with disabilities 2002 -2009 (actuals)

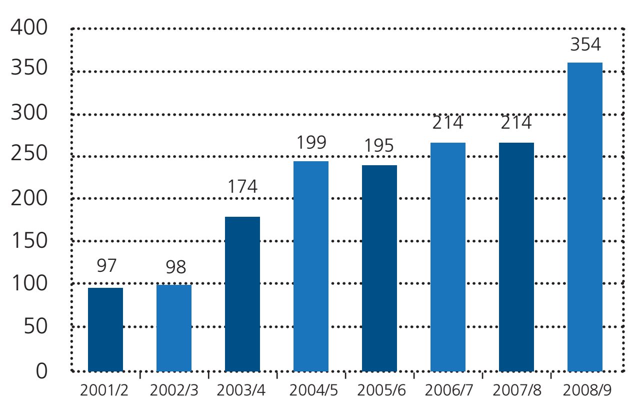
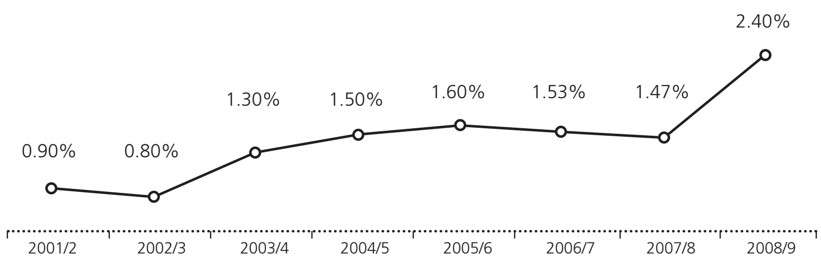


Figure 9: Representation of people disabilities 2002 – 2009 (percentage)



Performance management

SARS's strategic aspirations require SARS employees to continuously enhance their performance at all organisational levels.

Efforts to improve individual performance management processes and compliance with these processes by managers and employees resulted in the creation of individual, divisional and organisational scorecards. This is seen as a positive step towards the overall goal of creating a high performance organisation.

In 2008/2009 the Human Resource division also implemented a more robust governance framework to manage the remuneration of employees.

GOVERNANCE AND COMPLIANCE

Governance statement

The South African Revenue Service (SARS) is a public sector enterprise falling under the Public Finance Management Act No. 1 of 1999 (as amended) (PFMA) and the South African Revenue Service Amendment Act No. 46 of 2002 (SARS Act). SARS recognises the significance of good governance within government, which is crucial for effective public services and improved social outcomes. SARS is committed to ensuring good governance throughout the organisation and observing the principles of relevent good practices within the parameters of public sector legislation.

SARS has a governance, risk and compliance division for the specific purpose of entrenching good governance, enterprise risk management and compliance throughout the organisation.

Management

SARS is headed by the Commissioner, who is the Chief Executive Officer and Accounting Authority. Mr Pravin Gordhan was appointed to serve a second five-year term by President Thabo Mbeki in 2005.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

The Commissioner is accountable to the Minister of Finance, who is the Executive Authority. The Commissioner is assisted by an Executive Committee (ExCo), which in turn is supported by theme committees.

Internal governance committees

The composition of ExCo was reviewed to make it more responsive to changing business needs and ensure decision-making efficiency. The organisational redesign, which took place during the period under review, and specifically the new leadership framework and operating model, required the reconstitution of the ExCo in November 2008. This review mainly comprised a review of memberships of the governance structures, but the governance framework remained largely unchanged.

According to this framework, SARS has an ExCo chaired by the Commissioner. In addition, there are five theme committees, namely: strategy; people; modernisation; regulatory compliance; and business review. After the organisational redesign process, a delivery committee and a finance subcommittee were established. These two new committees have mainly an operational focus, and are not dealt with in further detail in this section given its scope.

ExCo

The ExCo's duties are to oversee, amongst others, the proper governance of SARS, the provision of strategic advice to the Commissioner and the maintaining of open communications with SARS management. The Minister of Finance meets regularly with members of ExCo.

For the period ending October 2008, SARS's ExCo consisted of the following members:

a) SARS Commissioner – Pravin Gordhan (chairperson)
b) General Manager: Strategy, Modernisation and Technology – Barry Hore
c) Chief Operations Officer – Edward Kieswetter
d) General Manager: Enforcement and Risk Management – Ivan Pillay
e) General Manager: Office of the Commissioner – Jeannee Padiachy
f) General Manager: Enforcement – Jonas Makwakwa
g) General Manager: Legal and Policy – Kosie Louw
h) General Manager: Regional Coordination – Leonard Radebe (resigned, August 2008)
i) General Manager: Communications and Corporate Relations – Logan Wort
j) General Manager: Risk Management – Mandisa Mokwena
k) General Manager: HR and Corporate Services – Oupa G Magashula
l) General Manager: Finance – Prakash Mangrey
m) General Manager: Operational Policy and Performance Management – Vuso Shabalala (resigned, June 2008)
n) General Manager: Large Business Centre – Matsobane Matlwa
o) Chief Information Officer – Tau Mashigo.

In accordance with the organisational redesign and as mentioned above, ExCo was reconstituted in November 2008 and presently consists of the following members, namely:

a) SARS Commissioner – Pravin Gordhan (chairperson)
b) Chief Officer: Modernisation and Technology – Barry Hore
c) Chief Officer: Business Enabling and Delivery Services – Oupa G Magashula
d) Chief Officer: Strategic Services – Edward Kieswetter
e) Chief Officer: Enforcement and Risk – Ivan Pillay
f) Chief Officer: Legal and Policy – Kosie Louw
g) Group Executive: Segmentation and Research – Mandisa Mokwena
h) Group Executive: Large Business Centre – Matsobane Matlwa (resigned, January 2009)
i) Acting Group Executive: Large Business Centre – Joseph Rock (acting, February 2009)
j) Group Executive: Reputation Management – Logan Wort
k) Group Executive: Taxpayer Services – Nathaniel Mabetwa
l) Chief Officer: Customs and Border Management – Gene Ravele
m) Group Executive: Institutional Enablement and Integrity – Dipuo Mvelazi (appointed October 2008)
n) Chief Financial Officer – Trix Coetzer (appointed January 2009)
o) Group Executive: Human Resource Management – Dudu Nyamane (appointed December 2008)

Theme committees

The theme committees have been given the authority (i.e. adequate delegation) and powers to address, dispose or recommend to ExCo depending on the nature of the issue. ExCo as an oversight body must be kept informed of all decisions to ensure that delegated power is being used appropriately. Membership of the committees is at the discretion of the Commissioner and consists of chief officers and group executives. Executives and subject matter experts are invited as and when required.

- Business Review Committee
  The Business Review Committee has the authority to approve all operational and business-related activity within the organisation.

- Modernisation Steering Committee
  The Modernisation Steering Committee sets and monitors the Modernisation Agenda of the organisation.

- People Committee
  The People Committee has the authority to approve all human resource-related activity within the organisation.

- Strategy Committee
  The Strategy Committee sets the strategic direction for the organisation and the delivery framework within the allocated resource allocation.

- Regulatory Compliance Committee
  The Regulatory Compliance Committee approves the regulatory compliance standards and procedures and monitors the compliance of discretionary SARS actions and transactions (e.g. dispute resolution, objections, appeals and write-offs) with the requirements of administrative justice.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Oversight committees

The SARS Act makes provision for the establishment of specialist committees to advise the Commissioner and the Minister on any matter concerning the management of SARS resources. The PFMA also requires the establishment of an Audit Committee to assist the Accounting Officer in discharging responsibilities relative to the PFMA.

The following oversight / external committees are operational:

- Audit Committee
- Human resource specialist committee (HRC) and its remuneration subcommittee.

Against the backdrop of the modernisation impetus and its broader implications for SARS, the membership of these committees was also reviewed. This was also done in accordance with the terms of reference of the committees, which indicate that members shall serve a term of three years and may be eligible for re-election for a second term to ensure continuity. The Minister subsequently reconsidered the membership of the HRC with a view to ensuring quality advice as SARS progressed along the modernisation trajectory, as well as ensuring sufficient continuity. This entailed renewing the memberships of some members, as well as the appointment of new members in July 2008 to strengthen the legal, educational, communication and public sector dimensions of the HRC, and in particular to enhance the functioning of the remuneration committee. Ms Cecilia Khuzwayo and Ms Laura Machaba-Obiodun were appointed as new members, and the memberships of Ms Judy Parfitt (chairperson), Mr Michael Olivier (remuneration committee chairperson), Ms Liz Thebe and Mr Adolf Maphutha were extended.

The membership of the Audit Committee was also reviewed by the Commissioner in accordance with the terms of reference. All memberships were renewed, and one new member, Mr Vuyo Kahla, was added to strengthen the legal and public sector dimensions of the committee.

Audit Committee

The SARS Audit Committee was established in terms of Section 51(1)(a)(ii) of the PFMA and Section 27.1.1 of the Treasury Regulations, which task the Accounting Authority (the Commissioner) with establishing an audit committee as a sub-committee of the Accounting Authority.

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

Membership and record of attendance at Audit Committee meetings:

In accordance with Treasury Regulations 27.1.3 and 27.1.4, the Audit Committee has been so constituted as to ensure its independence, with an external chairperson and three additional external (non-executive) members. The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. All members, in accordance with the SARS Act, give a declaration at each Audit Committee meeting of any personal or financial interests that may conflict with their duties in this regard. For the period under review, Prof. Dillip Garach temporarily recused himself from SARS governance structures for personal reasons but has since taken up his position again.

The PFMA requires that the chairperson of the Audit Committee must be independent, be knowledgeable of the status of the position, have the requisite business, financial and leadership skills and may not be the chairperson of the ExCo or a person who fulfils an executive function in SARS. This position is currently held by Mr Bongani Nqwababa.

Audit Committee

The full membership of the Audit Committee is covered in Part 5.

Responsibilities and scope of functions

The committee's responsibilities and functions include, in terms of Treasury Regulations 27.1.8, the *review* of:

- The effectiveness of SARS's internal control systems
- The effectiveness of SARS's internal audit function
- The risk areas of SARS's operations to be covered in the scope of internal and external audits
- The adequacy, reliability and accuracy of financial information provided to management and other users of such information
- Any accounting and auditing concerns identified as a result of internal and external audits
- SARS's compliance with legal and regulatory provisions
- The activities of the internal audit function, including its annual work programme; coordination with the Auditor-General; reports of significant investigations; and the responses of management to specific recommendations.

The committee's responsibilities and functions include, in terms of Treasury Regulations 27.1.8, the *approval* of:

- A rolling three-year strategic internal audit plan based on an assessment of key areas of risk for SARS
- An internal audit plan for the first year of the rolling plan
- Plans indicating the scope of each audit in the annual internal audit plan.

For the year under review, the Audit Committee has fulfilled all the requirements in terms of its responsibilities and functions as per the PFMA and Treasury Regulations.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Human Resource Specialist Committee

The Human Resource Specialist Committee (HRC) was established as an advisory body in terms of Section 11 (2) of the SARS Act. Its function is to:

- Advise the Minister on matters concerning the terms and conditions of employment of any class of employees in the management structure of SARS, as agreed between the Minister and the Commissioner
- Advise the Commissioner on any matters concerning the terms and conditions of employment of all employees of SARS, other than employees contemplated above.

The committee comprises six non-executive members, of whom four comprise its remuneration subcommittee. All members, in accordance with the SARS Act, give a declaration at each committee meeting of any personal or financial interests that may conflict with their duties in this regard.

Members and record of the Human Resource Specialist Committee attendance at meetings:

Human Resource Specialist Committee

Table 33: Human Resource Specialist Committee; attendance of members

Member	DATE OF MEETING				
	25 April '08	15 May '08	27 June '08	28 Nov '08	20 March '09
Ms Judy Parfitt (chairperson) BJourn, HDE (Rhodes); BA (Hons); MA (PE); MA (Warwick) Managing Director of Resolve Workplace Solutions, and Director of the Resolve Group	√	√	√	√	√
***Mr Mike Olivier** * M.Sc. Nuclear Physics (Wits) MBA (California) Remuneration and Human Resources Consulting	√	√	√	√	√
***Ms Liz Thebe** * Group Executive – Human Resources: SA Post Office	√	√	√	√	√
Mr Adolf Maphutha B.Com (Hons) SA; Dip.Workstudy; Dip.Labour Law; Dip.Energy Law Portfolio Manager: Energy: Government Relations: Sasol Oil (Pty) Ltd	√	√	√	√	√

Member	DATE OF MEETING				
	25 April '08	15 May '08	27 June '08	28 Nov '08	20 March '09
Mr Lionel Human BA Industrial Psychology (Hons) UWC; Personnel Management Dip (Dam); Management Certificate Unisa MD : Prima Personnel	√	√	√	No longer member	No longer member
***Ms Laura Machaba-Obiodun** (appointed July 08)* Post Graduate Dip. Education; B.Com Law; MA Comm; MBA	Not yet appointed as member	Not yet appointed as member	Not yet appointed as member	√	√
***Ms Cecilia Khuzwayo** (appointed July 08)* BCom; Dip. Industrial Relations; Post Grad Cert. Programme in Coaching	Not yet appointed as member	Not yet appointed as member	Not yet appointed as member	√	√

*The members of the Remuneration sub-committee are Mr Mike Olivier, Ms Liz Thebe, Ms Laura Machaba-Obiodun and Ms Cecilia Khuzwayo.

During the year under review the committee made recommendations and gave direction on the following issues:

- The SARS performance management system, as well as the application thereof to senior management
- The assessment of SARS's HR performance during the year
- The SARS leadership model
- The annual human resources business plan and strategy
- The performance management and development system for employees at all levels
- Remuneration issues and wage negotiations
- Pertinent management information including staff establishment, absenteeism and employment equity.

For the year under review, the HRSC has fulfilled all the requirements in terms of its responsibilities and functions as per the SARS Act and its Terms of Reference.

FINANCIAL MANAGEMENT

Unqualified audit opinions have been sustained over the past few years. Sound financial planning and analysis resulting in the allocation (and reprioritisation where necessary) of financial resources, continue to enable delivery of SARS's strategic and business plans.

The finance division provides financial and management accounting services to SARS. It comprises centres of excellence (expenditure accounting, revenue accounting, management accounting, and financial transformation) and "partnerships" with business units (tax and customs operations, enforcement and support services).

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

The overall strategy of the division is the progressive development of the capability to be a strategic partner and value creation enabler, that supports the attainment of the corporate strategy and objectives and which balances the role of strategist and steward in delivering world-class financial performance.

Improving tax collection administration

Revenue accounting has successfully implemented the first phase of the Bankserv project with respect to *refund* processing. The objective of this project is to reduce the risk of fraud, improve processing turnaround, and reduce operating costs. This will be done by creating a one-stop service that bundles account verification services with electronic funds transfer (EFT) processing, thereby increasing security over the disbursement of refunds. This project is fully aligned to the SARS strategic imperative of improved governance and operational efficiency.

Accounting transformation – generally recognised accounting practice (GRAP) for SARS-administered revenue

SARS is currently permitted to report in terms of the cash basis of accounting. The continued use of this basis of accounting was approved by the Minister of Finance in April 2007 and remains applicable up to the 2011/2012 financial year. SARS's modernisation programme enables the organisation to build the necessary capabilities to progressively comply with accrual accounting standards by the 2012/2013 financial year.

Key achievements for the year under review

A GRAP plan defining a high-level three-year road map for SARS to ensure accrual accounting compliance by the 2012/2013 financial year was issued, addressing the following key elements:

- Areas within business that will require enhancement to support and enable accrual accounting
- A high-level schedule addressing success factors needed for effective accrual accounting migration, including technological implementation, process changes, change management and applicable legislative changes.

The development of capabilities to support the accrual accounting principles and proposed legislative changes supporting tax and customs modernisation has commenced.

Business requirements specifications for these capabilities were developed and are described as follows:

- Simplification of the IT34 and statement of account (SOA):
    - To enhance taxpayer comprehension
    - Change payment principle for taxpayers to pay on SOA
    - The ability of taxpayers to easily query transactions on their SOA
    - To enable the improved utilisation of electronic channels.

- An end-to-end enterprise dispute management solution that effectively takes into account legislative requirements, and is supportive of the overall revenue management capability, financial reporting requirements and effective management of the dispute processes

- An end-to-end enterprise debt management solution that is scalable/agile, easy to use and that will enable the efficient collection of outstanding amounts by improving case management, collections management, financial reporting, and performance management
- Personal income tax (PIT) sub-ledger flagging to support debt, dispute and query management functions as well as financial reporting

Activity based management

Activity based management (ABM), when fully adopted, will support business analysis and enable operational and strategic decision-making.

ABM in SARS ensures that management is better informed to make both strategic and operational decisions linked to process optimisation, automation, benchmarking performance and transfer of best operating practice within the organisation, thus allowing for the allocation of scarce resources to correct areas in the value chain.

ABM is currently integrating process-based performance metrics (how well the work is done) with the costs of achieving that performance and will aid SARS's management planning and business processes, improve the management information and integrate the data sets of human resources, financial and transactional processing.

The project has accomplished the following milestones during 2008/2009:

- Installation and integration of the ABM software into the SARS IT production environment to assist with business modelling
- Extensive training and development of staff on the software
- Completion of the development of the income tax pilot model
- Operationalisation of the above income tax model
- Completion of the development of the Customs pilot model to assist with customs' cost management and modernisation.

Training Outside Public Practice

SARS's Training Outside Public Practice (TOPP) is a programme approved by the South African Institute of Chartered Accountants (SAICA), with accreditation to June 2012. In the programme's three-year history, this year has seen some remarkable progress and achievements, including a 67% pass rate for Part 2 of the SAICA qualifying exams.

10 trainees wrote Part 1 of the SAICA qualifying exams and are awaiting their results, while four trainees are completing their training contracts at the end of June 2009 and will join various business areas. The assessment process has been outsourced to ATCOR (a SAICA-accredited service provider) to ensure best practice.

The programme continues to form an integral part of SARS's overall strategy to attract, develop and retain professional staff within the public sector, and as a result it continues to receive top priority from management.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Asset management

SARS requires both fixed and movable assets to execute its function. To that end, SARS manages an asset portfolio with a carry value of approximately R1 101 million in about 250 locations nationwide. The assets cover a wide spectrum with IT assets constituting a significant part of the value of the total SARS asset register.

SARS manages its assets within the framework of the PFMA, that obliges it to exercise the utmost care to ensure reasonable protection of its assets and records (Section 50 (1) (a)). As part of this duty of care, SARS is responsible for managing the safeguarding of its assets (Section 51(1) (c) PFMA). In particular, this requires SARS to implement and maintain an asset management system that best responds to and supports SARS's business needs. As such, the system needs periodic review to adapt to SARS's changing needs.

The SARS organisational culture is to value taxpayers' money and, as such, its assets. To that end, SARS maintains an asset management system anchored in policies and standard operating procedures. The system is driven by a consolidated asset register and is geared towards maintaining the register.

To ensure continued compliance with the PFMA, SARS has taken a number of corrective actions, such as the appointment of asset coordinators countrywide and the acquisition of an additional 25 scanners to increase verification capabilities. Various initiatives to increase electronic detection of its assets have been launched, including a self-declaration tool and an electronic discovery tool operating through current network systems.

The challenge still facing SARS is to continue to improve the asset management system and to maintain the asset register without compromising controls.

Key achievements to date are:

- The asset management policy and related processes and procedures have been revised and published on a dedicated asset management portal
- The SARS property portfolio management function (to be implemented in the next financial year) was enhanced and automated through the introduction of the SAP Real Estate solution that represents best practice processes. The solution offers the following benefits:
  - Enhanced control and analysis of SARS's national real estate portfolio
  - Cost information visibility at building level
  - Improved management of total asset performance and automated financial transactions such as monthly lease contract expense payments and smoothing of rent
  - Improved reporting via integration with other solutions
- The appointment of the new asset management manager on 16 February 2009 and the development of the HR structure for the head office asset management division
- Agreement from the Auditor-General to make the asset classes more available to facilitate the audit process.
- The completion of the physical verification of selected high-value assets in six of the regional areas and the commencement of the internal audit in these regions. The fixed asset audit by the Auditor-General commenced in Cape Town on 31 March 2009

Procurement

During the 2008/2009 financial year the key objective of the procurement department was to begin the transformation of the department into a modern procurement division employing best practice principles to deliver service and value to the broader organisation. The procurement optimisation project commenced in April 2008 with the intention of significantly improving the effectiveness of the department.

The project consisted of two main thrusts, firstly introducing SARS to the strategic sourcing concept as a methodology for reducing the cost of ownership of goods and services procured, and secondly, making better use of existing technology in simplifying the procurement processes and wherever possible replacing paper-based processes with electronic ones. This is not only more efficient from a procurement perspective, but it will also give the users in the business greater control and predictability over the processes. During the 2008/2009 financial year the foundations for this transformation process were laid and processes will be enhanced through continuous improvement.

SARS continues to embrace the Broad-Based Black Economic Empowerment (BBBEE) model as prescribed by the Department of Trade and Industry. According to this model SARS's spend on the eight empowerment categories is summarised in the table below.

Table 34: SARS BBBEE Expenditure for 2008/2009 Fiscal Year

BBBEE Contributor Level	Expenditure		% of Total BBBEE Spend	
	R 2007/08	R 2008/09	2007/08	2008/09
Level 1	154 925 725	138 596 327	14.47%	10.60%
Level 2	40 578 541	9 370 176	3.79%	0.72%
Level 3	240 883 861	403 710 984	22.50%	30.89%
Level 4	209 700 358	176 183 704	19.59%	13.48%
Level 5	263 553 987	413 650 696	24.62%	31.65%
Level 6	67 772 886	64 884 992	6.33%	4.96%
Level 7	15 359 833	11 147 256	1.43%	0.85%
Level 8	77 788 985	89 586 990	7.27%	6.85%
Total BBEE Spend	**1 070 564 176**	**1 307 131 125**	**100.00%**	**100.00%**
Total Procurement Expenditure	**1 744 559 231**	**2 121 724 570**	**100.00%**	**100.00%**
Total BBBEE Spend	1 070 564 176	1 307 131 125	61.37%	61.61%
Total Non BBBEE Spend	673 995 052	814 593 445	38.63%	38.39%

Properties and facilities

The properties and facilities division provides SARS with the infrastructure it needs to operate effectively. It facilitates this by establishing new offices, maintaining all buildings and border posts and ensuring compliance with relevant legislation.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

The Property Portfolio currently comprises:

Commercial Leases	91
Parking Leases	08
State Owned Office buildings	22
Other State Owned	24
Residential Leases	4
Total	**149**

For the financial year under review, 10 new leases were activated, 21 leases were renewed, 12 leases were terminated and one state-owned facility was vacated. Continuous interventions are undertaken to enhance the relationship with the Department of Public Works and the Public Investment Company (PIC) from an operational perspective.

The unit delivered the new East London, Port Elizabeth, Richards Bay, Brooklyn Bridge, Springs and Welkom offices and supported the delivery of the Alberton Campus and Doornkloof contact and assessment centres.

The installation of alternative power (generators) has been implemented at the majority of the sites specified by business, which will ensure business continuity during power failures and load shedding.

The focus from a health and safety perspective for the year was to enhance legal compliance with relevent legislation. A national steering committee consisting of representatives from various stakeholder departments has been established. The committee has commenced its work and key tasks included the further formalisation of health and safety compliance for all offices. The health and safety team is also being augmented through the appointment of additional resources. Furthermore, regular audits and inspections were conducted on all equipment and, where required, maintenance and repairs carried out.

The space planning and design team have been active in finalising the design layout for various sites including Welkom, Alberton Campus, Doornkloof and the conference facility at Brooklyn Bridge. Specific projects were undertaken to enhance space utilisation. The unit continued to work closely with the modernisation and technology team on the file scanning and bulk storage of files projects. A project is currently under way to develop a standardised branch office model that takes into account the segmentation approach and which will facilitate the delivery of services to taxpayers.

INTERNAL AUDIT

The Internal Audit division functions in accordance to the Internal Audit Charter, approved by the Commissioner of SARS and the Audit Committee. In terms of the charter, Internal Audit is responsible for developing and executing the SARS internal audit plans in order to provide assurance to management and the Audit Committee on the systems of internal control, risk management and governance. The purpose is to assist management in identifying weaknesses in the aforementioned systems within SARS and to provide recommendations on how to deal with these weaknesses. This is done primarily through auditing systems and processes within business areas, as per the internal audit plan, and issuing reports detailing the results of the audits to management and the Audit Committee. When conducting audits, Internal Audit follows its (externally) quality-assured approach and methodologies, based on the Institute of Internal Audit's (IIA) International Standards for the Professional Practice of Internal Auditing and Treasury Regulation 27.2.6.

Internal Audit successfully executed and completed its audit plan for the year under review. The division conducted 48 planned audits, including follow-up audits, and has provided inputs and advice to various fora, steering committees and two organisational policies and procedures. The division has also conducted several ad hoc projects requested by management and the Audit Committee. There was greater coverage in the ICT environment compared to previous years, due to the acquisition of much-needed capacity. During the last quarter of the year under review the division conducted its first integrated audit, where the ICT audit team worked together with the general internal audit team on one audit. The division conducted an organisation-wide operational risk assessment during the last quarter of the period under review.

Overall, the audit results indicated a satisfactory control environment. Where weaknesses/gaps were identified, management committed itself to implementing or implemented agreed actions to ensure improvement. Internal Audit follows up on the implementation of the agreed action and reports the status and results to executive management and the Audit Committee.

A performance audit department was established in September 2008. The performance audit methodology was finalised and the team conducted its first performance audit during the year under review. The results of the audit clearly indicate the value added to SARS.

The risk-based Internal Audit Plan for 2009/2010 has been developed in accordance with the IIA's standards and the relevant Treasury Regulations. This plan was approved by the Audit Committee on 20 March 2009.

Internal Audit enjoys a healthy working relationship with all its stakeholders and continues to build its operational efficiencies through staff training and through the upgrading of its technologies and methodologies.

During the year under review the Internal Audit division fulfilled all its responsibilities as required by the PFMA and Treasury Regulations, and has exceeded its targets in terms of the divisional business plan.

INTERNATIONAL RELATIONS

The international relations division's role is to contribute to SARS's international image as a dynamic and forward-looking organisation, and to position it as an active player in the regional and international tax and customs arena.

Overview

South Africa's expanding global and continental relations have resulted in a greater need for international technical cooperation which in turn requires an expanded international role and a proactive approach by SARS. Multilaterally, particular emphasis was placed on the role of South Africa within the World Customs Organisation (WCO), the Organisation for Economic Cooperation and Development (OECD) and the India – Brazil – South Africa forum (IBSA). Importance was also placed on regional work in the structures of the African Union (AU), the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Several bilateral tax and customs agreements were also concluded with strategic partners. In keeping with its commitment to developing tax and customs capacity on the continent, SARS continued to provide assistance to other African administrations in the form of workshops, study visits and attachments.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Multilateral cooperation

World Customs Organisation

SARS played a pivotal role in the development of the WCO strategic document, *Customs in the 21st Century*, which was adopted at the WCO Council in June 2008. SARS hosted WCO management training as part of the WCO's Columbus Capacity Building programme.

Organisation for Economic Cooperation and Development

The most significant SARS engagement with the OECD over the past year was the appointment of Commissioner Pravin Gordhan as chairperson of the OECD's Forum on Tax Administration (FTA), the first time for a non-OECD member country. One of the key outcomes during this period was the development of a vision for the FTA and the election process for the vice chairs. The FTA vision aims to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world. Within the context of a global economy, rapid technological change and fiscal challenges for government, the forum aims to improve tax compliance and taxpayer services, by helping revenue bodies to increase the efficiency, effectiveness and fairness of tax administration and to reduce the costs of compliance.

Over the course of the year, SARS officials participated in the regular meetings and work of the OECD's Committee on Fiscal Affairs and its various working parties, as well as in the meeting of the OECD Advisory Group for Cooperation with Non-OECD Economies in Fez, Morocco, in March 2009.

India – Brazil – South Africa

Within the IBSA Revenue Administrations Working Group (RAWG), SARS played a leading role in developing the IBSA Memorandum of Understanding (MOU) towards the formation of an IBSA Centre for Exchange of Information (IBSA CETI) to supplement their ongoing work in identifying and curbing abusive tax avoidance transactions, arrangements, and schemes. The MOU was endorsed by the RAWG at the 5th Revenue Administrations Steering Group in Brazil. The MOU will be signed on the occasion of the 4th IBSA Summit in Brazil in October 2009.

The three administrations also agreed to continue working on issues of electronic interconnectivity and to cooperate in the fight against fraud and smuggling, the exchange of information, risk profiling and assessment, a common approach to customs procedures, capacity building and developing a common approach in multilateral fora.

Inter-American Centre for Tax Administrations (CIAT)

As an associate member, SARS hosted the CIAT Technical Conference in South Africa from 29 September to 2 October 2008. The topics of the conference included:

- The non-fiscal functions of taxation and their impact on the tax administration
- Critical tax control issues
- Building, developing and applying risk management.

Other multilateral fora

SARS senior officials participated in the Singapore Commonwealth – Developing E- Government and E-Business Strategies Training Programme in February 2009, as well as the International Tax Dialogue (ITD) conference on *Taxing Micro and Small Businesses* in Kigali, Rwanda. A senior SARS official was also reconfirmed as a member of the UN Committee of Experts on International Cooperation in Tax Matters.

Regional cooperation

Regionally, SARS participates in the activities of the WCO East and Southern Africa region, the SADC and SACU.

SARS is chairing the SADC Subcommittee for Commissioners of Customs (SCCC) from August 2008 to August 2009. In 2008 the SADC launched its Free Trade Area, which is aimed at eliminating tariffs and non-tariff barriers on most trade among SADC member states. SARS has continued to play a leading role in the activities of the SCCC and its advisory working groups aimed at the smooth implementation of the SADC Protocol on Trade and its objectives of creating a customs union, an SADC transit system, capacity building and the development of a common legislative framework.

SARS also participates in the SADC Tax Subcommittee in the Indirect Tax Working Group (ITWG) and Tax Agreements Working Group (TAWG). SARS currently chairs the TAWG.

Africa Tax Administration Forum

SARS hosted the *International Conference on Taxation, State Building and Capacity Development in Africa*, held in Pretoria on the 28 and 29 August 2008; a steering group of seven African commissioners were mandated to take forward the process of establishing the African Tax Administration Forum (ATAF). SARS Commissioner Pravin Gordhan was elected as the chairperson of the steering group. Having tasked senior officials in their respective administrations with preparing documentation for the establishment of the forum, the steering group met in Cape Town on 7 and 8 February 2009. There they agreed:

- On the formation of an interim secretariat hosted by SARS to implement the ATAF road map
- On the adoption of the road map which provides a framework for 2009 – 2010 and beyond
- To finalise the draft constitution and by-laws toward the formal establishment of ATAF
- To develop an ATAF communications strategy
- To mobilise research capacity for studies on the state of tax policy and administration in Africa.

Bilateral cooperation

A General Memorandum of Cooperation, with special annexures on capacity building and the Customs Automation Project, was signed between SARS and the Lesotho Revenue Authority (LRA) in June 2007. At the bilateral meeting between the two revenue administrations in February 2009 it was agreed that cooperation will be enhanced to ensure a smoother flow of trade at major border crossings between the two countries. SARS and LRA have both embarked on modernisation initiatives to improve their efficiency; a co-operation

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

strategy was adopted in March 2009 since collaboration can benefit both administrations, with the leveraging of opportunities and the identification of synergies.

Relations with other strategic partners were also strengthened through the signing of a Memorandum of Cooperation with the Australian Tax Organisation, focusing on capacity building in tax. The Agreements on the Avoidance of Double Taxation with Mozambique, the Netherlands, Portugal, Nigeria, Saudi Arabia and Switzerland were ratified by both countries in each of these cases, while a protocol in this regard was ratified with Australia and the Netherlands. Agreements on Mutual Administrative Assistance in Customs Matters were signed with India and Sudan.

Capacity building

SARS continues to provide assistance to other African administrations in building their capacity. This takes the form of providing policy, legal and operational assistance, hosting study and benchmarking visits, providing training interventions either in South Africa or in those requesting countries, and seconding SARS officials to other administrations as well as hosting officials seconded by other administrations.

SARS hosted workshops, with the participation of OECD technical experts, for administrations of the SADC region on tax treaties, auditing multinational enterprises and transfer pricing. Within the context of the WCO Regional Training Centre for East and Southern Africa, SARS also provided training for the region on trade facilitation, integrity and post clearance audits, with financial assistance from the Dutch government.

Benchmarking visits

Over the past year, SARS received visits from officials from the tax and customs administrations of Nigeria, Zambia, the DRC, Uganda, Kenya, Mauritius, Cameroon, Sierra Leone, Bangladesh, Indonesia, Mozambique, Pakistan, Rwanda and Namibia. The visits contributed to enhanced tax and customs co-operation.

LEGAL AND POLICY

As the administrator of tax and customs law, SARS tries to ensure that it contributes to the creation of an appropriate tax policy and legislative environment. In the year under review, SARS has played a significant role in contributing to the creation of an enabling tax and customs regulatory framework.

Performance highlights

Legislation

- Implementation of the new reportable arrangements legislation
- Completion of the second draft of the Customs Bill
- First internal draft of the Tax Administration Bill
- Publication of the Revised Draft Regulation of Tax Practitioners Bill
- Draft legislation regarding the imposition of an environmental levy on electricity

- Draft legislation pertaining to the administration of the Diamond Export Levy
- Taxation Laws Amendment Act, 2008 – small business presumptive turnover tax
- Regulations issued to prescribe the administrative penalties in respect of non-compliance
- Abolition of stamp duties.

Interpretation and rulings

- A number of key guides were issued, such as the *Guide on the taxation of retired persons/pensioners, Draft tax guide for micro businesses, Draft guide for recreational clubs and the VAT Guide for entertainment, accommodation and catering*
- A number of draft interpretation notes were issued. These included the one which dealt with the consequences of the judgement delivered in the High Court in the case of *Commissioner: SARS v Brummeria Renaissance (Pty) Ltd (2007) SCA 99* and one on research and development costs
- Sixty-one private binding rulings were issued

Dispute resolution

- A success rate of 69% in litigation cases was achieved
- 269 cases were dealt with via the Alternative Dispute Resolution (ADR) process
- A SARS employee represented SARS in the Supreme Court of Appeal for the first time.

Primary legislation

SARS has contributed to a range of legislation and explanatory memoranda for a wide variety of Bills and, where appropriate, has proposed amendments to the existing law. Joint submissions with National Treasury have been made regarding commentary received by the Portfolio Committee on Finance (PCOF). The taxpaying public have been informed about legislative changes or amendments through a range of briefing notes and media statements throughout the year. Inputs regarding primary tax and customs policy and legislation have been made in the areas of pension-related lump sums, tax-sharing of the fuel levy, deductions for medical contributions, customs control and counterfeit goods, customs duties and excise duties on imported goods and legislative remedies. SARS has also prepared a Second Draft Customs Bill which takes account of current domestic and international demands relating to border control and trade facilitation.

Secondary legislation

A wide range of secondary legislation has been drafted. This includes regulations, proclamations and notices, which have cumulatively contributed to explaining tax and customs matters, which has led to better service delivery.

Examples of this legislation are the following:

- Draft regulations prescribing new administrative penalties
- Notice: determination of the daily amount in respect of meals and incidental costs for purposes of Section 8(1) of the Income Tax Act, 1962
- Notice: determination of interest rate for purposes of paragraph (a) of the definition of "official rate of interest" in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962
- Notice: determination of a date by which a person may elect to be registered as a micro business in terms of the Sixth Schedule to the Income Tax Act, 1962

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

- Regulations issued under Section 33 of the Stamp Duties Act, 1968, (1) providing for the demonetisation of adhesive revenue stamps and prescribing the procedures for the refund of the value of unused revenue stamps and (2) providing for the discontinuance of the use of revenue franking machines and prescribing the procedures for the refund of the unused revenue value as set per revenue franking machines

Customs and Excise Act – notices and tariffs

Sixty government notices relating to customs and excise matters were published in the areas of:

- Anti-dumping (8)
- Countervailing duties (1)
- Safeguard duties (1)
- Provisional payments in relation to trade remedies (1)
- Rebates (17)
- Tariff increases (1)
- Tariff reductions (11)
- Accession of Bulgaria and Romania to the European Community (1)
- Budget proposals (4)
- Amendments to the Notes and Statistical Tariff Structure (6).

Nine sets of rules were also published.

International

Thirteen bilateral negotiations took place during the course of the year, namely:

- Seven treaties (Sweden Protocol, Kuwait Protocol, Qatar Double Taxation Agreement, Malta Protocol, Kenya Double Taxation Agreement, Malawi Double Taxation Agreement and Vietnam Double Taxation Agreement).
- Six MOUs (Australia Memorandum of Cooperation between SARS and the Australian Tax Authority, Canada Customs Agreement, United Kingdom MOU on Assistance in Collections, Lesotho MOU on Assistance in Collections, Lesotho VAT Agreement and SACU Mutual Administrative Assistance in Customs Matters).

The purpose of these bilateral negotiations around the globe is to promote trade and investment, protect the tax base and facilitate exchange of information.

Interpretation

The Legal and Policy Division (LAPD) aims to develop and maintain a sound tax knowledge base by issuing tax guides, interpretation notes and rulings to stakeholders. Various interpretation notes were updated during the year and several new notes as well as existing notes that required extensive revisions were published in draft form for public comment, before finalising SARS's official interpretation of the respective topics. In the year under review the division disseminated 14 new guides and interpretation notes and updated 26 policy documents.

Two of the most important interpretation notes which were prepared and published for comment relate to matters on which both internal and external stakeholders required clarity. One of them was issued as a consequence of the judgement delivered in the High Court in the case of *Commissioner: SARS v*

Brummeria Renaissance (Pty) Ltd (2007) SCA 99. The other note dealt with the new section 11D which was introduced into the Income Tax Act to provide for a specific deduction in respect of research and development expenses. Taxpayers required clarity from SARS as to the specific items qualifying for the eligible deduction.

Rulings

A substantial number of high-level rulings were issued in order to provide clarity on the interpretation of the laws administered by SARS. Key statistics pertaining to these rulings are:

Income tax

- 25 rulings on corporate income tax matters and public benefit organisations (PB0s)
- 227 rulings on employment-related income matters
- 73 rulings on VAT matters.

Advance tax rulings (ATR)

The ATR system, which was implemented on 1 October 2006, was extended to include binding class rulings with effect from 1 October 2007.

Applications were received mostly in respect of income tax, but sometimes they covered more than one tax type, for example income tax and VAT. Statistics are kept on the major areas within the various tax types to keep track of any potential trends that may appear over a period of time. To date no specific trends have appeared. Many of the applications touch on restructuring in order to become BEE compliant.

A survey on the ATR system was conducted on a total sample of 297 representatives of companies and professional firms of which 75% were contacted. Responses were received from 20% of the representatives. Overall 87% of the participants believed that the ATR sub-division provided certainty. The lowest score (79%) was obtained from a group that has not yet used the system.

Knowledge sharing

Guides

As part of the maintenance of a sound knowledge base for external stakeholders numerous guides were published during the year.

These documents include a *Draft guide for recreational clubs*, which was issued to assist such clubs to gain an understanding of the new provisions introduced into the Income Tax Act in relation to clubs. Other important guides published were the *Guide on the taxation of retired persons/pensioners, VAT Guide for entertainment, accommodation and catering, Comprehensive VAT guide for municipalities, Comprehensive VAT Guide for fixed property and construction and the Draft guide for micro businesses*.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

Workshops

25 workshops were presented during the year of which:

- Five related to customs matters
- 15 related to international treaties
- Five related to the taxation of small businesses.

Anti-avoidance

Tax avoidance structures

A number of aggressive tax avoidance structures were investigated and analysed during the course of the year. Certain of these investigations were successfully settled with the taxpayers involved, while letters of findings were issued in regard to others.

A database of tax avoidance structures and mechanisms has been developed and will be populated during the 2009/2010 financial year.

Reportable arrangements (RAs)

A substantial number of reportable arrangements were analysed this year and trends regarding the types of arrangements were reported to management. The reportable arrangement operational functions were transferred to the SARS Large Business Centre (LBC) during the latter part of the year.

Revenue litigation

This year, for the first time, a SARS employee represented SARS in the Supreme Court of Appeal. The case was won by SARS.

The table below gives a breakdown of the revenue cases.

Table 35: Breakdown of revenue cases at the various courts

Tax Court	QTY
Conceded	25
Lost	5
Referred to Branch: Re-assessment	1
Settled against SARS	1
Settled in favour of SARS	59
Won	8
Withdrawn	19
Tax Court Totals	118

High Court	QTY
Conceded	0
Lost	2
Settled against SARS	0
Settled in favour of SARS	0
Won	1
Withdrawn	0
High Court Totals	**3**
Supreme Court of Appeal	**QTY**
Won	3
Lost	1
Withdrawn	0
SCA Totals	**4**

Customs litigation

The table below gives a breakdown of customs cases.

Table 36: Breakdown of customs cases at the various courts

Magistrate's Court	QTY
Total Magistrate's Court	**0**
High Court	**QTY**
Abide	43
Against	4
In favour with costs	9
In favour without costs	6
Settled against	4
Settled in favour	0
Otherwise finalised	7
Total High Court	**73**
Supreme Court of Appeal	**QTY**
Abide	0
Against	0
In favour with costs	2
In favour without costs	0
Settled against	0
Settled in favour	0
Total Supreme Court of Appeal	**2**

Alternative dispute resolution

The ADR rules and settlement regulations allow for the resolution of tax disputes outside the litigation arena. These measures also ensure that the principles of administrative justice and the right to efficient public service are respected.

PART 3: REPORT ON ADMINISTRATION, POLICY AND GOVERNANCE - cont.

The table below gives a breakdown of all appeals dealt with by ADR in the year under review.

Table 37: Breakdown of appeals dealt with by ADR

Method of settlement	QTY
Settled in favour of SARS	29
Settled against SARS	89
Referred to Tax Court	36
Referred to Tax Board	0
Referred to Branch Office	8
Referred to Customs Litigation	11
Conceded	61
Withdrawn	35
Total cases dealt with	**269**

Of the cases on appeal, most were in respect of capital vs. revenue, deductions and exemptions (income tax) and VAT.

Corporate legal support

SARS's Corporate Legal Unit provides in-house legal support. Its objectives are, among other things, to:

- Provide advice on potential and/or identified legal risks in respect of SARS litigation, contracts and business transactions
- Provide advice on good governance practices in respect of tender processes, the implementation of internal policies and legislative requirements
- Provide legal support and services to SARS in the form of verbal and written legal opinions, the management of litigation, negotiation and drafting or vetting of commercial contracts, risk identification and advice on mitigation strategies to address such identified or potential legal risks

This year the unit began with a process of standardising contracts and lease agreements entered into by SARS to ensure that the interests of SARS are consistently protected. Also turnaround times in finalising such agreements and contracts have been shortened.

PART 4: MODERNISATION AGENDA

PART 4: MODERNISATION AGENDA

Financial year 2007/2008 marked the first year of execution of the SARS Modernisation Agenda which was aimed at fundamentally changing the way in which SARS operates. There were thus great expectations from all stakeholders that the second year of delivery (2008/2009) would continue the precedent of delivery set the previous year. The results indicate that SARS lived up to those expectations. More work will be carried out over the next few years to further modernise SARS and make it a world-class revenue and customs authority.

The overarching Modernisation Agenda includes 10 programmes.

The 10 programmes are:

New Operating Model	Create a differentiated operating model	• Segment taxpayers/traders and develop strategies and operating model by segment • Relocation of resources • Long-term benefits once established
	Develop an integrated risk management system	• Capture of additional growth and closure of tax gap • Increase capacity and enhance capabilities of enforcement and risk
	Improve customer service, outreach and education	• Important for SARS to be responsive to taxpayers/traders • Maintain perception of being efficient revenue collector • Re-design service model to improve service levels and meet service charter targets
	Enhance core operations and build capabilities	• Imperative to stabilise and repair core functions for sustained performance • Build basic core operations capabilities (e.g. scanning, automation and eFiling) • Redesign core tax product processes
Additional Priorities	Strengthen border control	• National priority to protect borders and curtail illicit trade • Implement AEO accreditation programme and implement CBCU units • Prepare for tax and customs implications of 2010 World Cup
	Implement social security and wage subsidy	• Commitment to implement social security by 2010 and administer wage subsidy • Leverage synergies and interdependencies with core tax systems
Operational Foundation	Further professionalise management processes and governance	• Limited MIS capability and performance management in place • Professionalise management planning, tracking and reporting processes
	Transform SARS culture and further enhance capabilities	• 2007 Year of the People. People are critical enablers to any change agenda • Improve talent and performance management processes • Skills lacking in critical areas • Embedding of values
	Improve infrastructure (ICT and Facilities)	• Improve operational efficiency by upgrading operating systems and hardware • Upgrade and improve facilities to ensure compliance with health and safety regulations
	Effective communication and change management	• Create buy-in for change • Education of taxpayers / traders

Given the size and magnitude of the Modernisation Agenda, it was decided that the implementation would be phased over seven years, and delivery carefully staggered over that period. During 2007/2008, it was decided to focus on the most critical of those modernisation programmes. This led to a focus on the following five programmes:

- Assessment/Operations – enhancing core operations and building sustainable processing capabilities
- Service – improving customer service, outreach and education
- Risk – developing an integrated risk management and enforcement system
- Customs – modernising the infrastructure and strengthening border control
- Support initiatives – reinforcing core support systems.

1. ASSESSMENT / OPERATIONS PROGRAMME

In May 2007 SARS embarked upon a programme to transform the income tax process from a complex paper-based and labour-intensive process to a simplified, automated and electronic one. The motivation behind this endeavour was twofold: firstly, to reduce the costs to both SARS and taxpayers of meeting income tax obligations and secondly, to enhance the ability of SARS to effectively ensure the compliance of taxpayers. This is in line with our approved strategic direction of modernising our operating capabilities through automation, thereby enhancing effectiveness and efficiency and releasing resources to focus on higher value-adding activities.

Tax season for employers

Key to the modernisation of SARS is the capacity to increase compliance levels, not only to improve taxpayer service. One of the key levers with which to achieve this is to pre-populate tax returns. Based on the quality of information received in previous years, SARS realised that it needed to re-engineer the whole PAYE system to ensure that the PAYE data was of better quality and also to ensure better matching of the data submitted by employers and individuals.

The year under review represented the first year for the implementation of the reforms for the PAYE system. The 2008/2009 employers' tax season has been successful, as follows:

- Submissions: There were approximately 270 000 reconciliation submissions with more than 90% of submissions received electronically and, according to the *Tax Season 2008 Research Survey,* an 86% customer satisfaction rating for "e@syFile for employers" was achieved.
- Tax certificates: About 15.4 million certificates were received (against 11.7 million in 2007), which represents an increase of more than 30% .
- Accuracy of data: Out of 15.4 million certificates submitted by employers, 11 million of the certificates could be matched to 8.8 million individuals of whom 4.5 million are registered taxpayers. It was this data which was used to assist with the pre-population of individuals' tax returns.
- Compliance indicators: SARS unearthed more than 400 000 taxpayers who should be on the tax register, but aren't – potentially a significant, untapped source of revenue collection.

Filing season for individuals

The success of the most recent filing season is built upon both the 2007 filing season and the 2008 employers' filing season.

PART 4: MODERNISATION AGENDA - cont.

Key successes achieved include:

- For the first time, blank tax forms were no longer dispatched to taxpayers. This saved SARS considerable printing and postal charges. Non-electronic filers were sent income tax return request (ITRR) forms to request tax returns.
- The introduction of customised and pre-populated Personal Income Tax (PIT) forms. This was made possible by a pre-population engine which performed above expectations:
  - Customised forms received an 86.9% customer satisfaction rating according to the T*ax Season 2008 Research Survey*
  - Taxpayer error cases dropped from 600 000 in 2007 to 90 000 in 2008, an 85% reduction.

This bodes well for the future as additional pre-population items are added to the PIT process to both improve compliance and also to reduce the effort required from individual taxpayers to complete the return, as more fields are pre-populated.

- eFiling continued to grow:
  - eFiling submissions increased from 850 000 in 2007 to more than 1.7 million in 2008, a 100% increase over a year, bearing in mind that there were only 30 000 eFilers in 2006.
  - eFiling registrations increased from more than 1.3 million to 2.1 million, a 51% increase from 2007.
  - The value of eFiling payments has grown by 150% for individuals.
  - The number of persons registered to submit company tax returns via eFiling has increased by 44% over the last year while actual submissions of company returns via eFiling has grown to more than 365 000, an increase of approximately 500% from 2008.
  - The *Tax Season 2008 Research Survey* again reflected a positive customer satisfaction rating of 73.1%.
  - There has been a diminishing number of paper returns received and processed by the Data Capture and Scanning Unit

- Only 250 000 returns were scanned during the 2008 tax filing season compared to more than 1 million in 2007. This translates to a 75% reduction from 2007.

- Only 500 000 returns were processed via manual data capture, which is a 50% reduction from 2007.
  - In 2008/2009 SARS introduced the online capture of returns at branches, to assist clients. In the first year, approximately 600 000 submissions were done via this “face-to-face” channel and this grew in 2009 by about 80% to more than 1.1 million returns. This helped greatly in reducing the volume of errors as capture errors can be identified at the time of first engagement with the taxpayer.
  - The number of returns sent back to taxpayers was reduced from more than 600 000 in 2007 to fewer than 50 000 in 2008.
  - Data quality has increased and turnaround times are improving dramatically due to a combination of form customisation, eFiling, pre-population and the lower volumes of paper returns processed. More specifically

- Most taxpayers received their assessments significantly more quickly than before and average turnaround times continued to improve to an average turnaround time of 10 – 20 days (as opposed to 45 – 55 days in 2006).

- Quickly assesssed returns improved to 63% within 24 hours and 79% within 10 days (as opposed to 1% within 48 hours and 3% within 10 days in 2006).
  - o The newly developed E@syfile software for tax practitioners has been received positively. To date there are more than 5 000 users of the software, serving more than 700 000 taxpayers.

The table below reflects the impact of Modernisation Initiatives on filing roles and SARS's responsiveness to tax progress.

Table 38: Returns processed in first 27 weeks of Filing Season

Comparison: First 27 weeks of filing season	2007	2008	% Change
Income tax returns assessed	2 352 647	3 293 991	40.01%
Income tax returns received	3 283 690	3 714 658	13.12%
Income tax returns received manually	2 044 550	633 352	-69.02%
Income tax returns received via BFE	718 535	1 075 046	49.62%
Income tax returns received via eFiling	445 101	1 856 646	317.13%
Turnaround time: one day (in %)	13%	62%	383.16%

2. SERVICE PROGRAMME

Work on implementing the foundations for improvements to the provision of service continued in this fiscal year. Building on the base infrastructure put in place during 2007/2008, enhancements were introduced in 2008/2009 to move closer to achieving improved transactional workflow, client self-service, staff learning and improved contact centre facilities, all with the intent to drive improved service and efficient performance. Ultimately the strategic aim is to ensure 80% of our client interactions result in first contact resolution. The ability to deliver this kind of service is dependent on our ability to provide taxpayers and traders with improved self-service, including eFiling and an interactive voice response (IVR) system, together with giving staff the tools and information needed to ensure a successful interaction. Additionally, the move towards utilising digital versus analogue technology to receive calls and interact with taxpayers will ensure optimisation of telephony cost and infrastructure. Although good progress has been made during the year, there is still some way to go before SARS's vision is realised. The development and deployment of a world-class contact centre has not been without its difficulties. In particular SARS has encountered problems with managing capacity (especially at peak times during filing season) and with the required level of skills required by agents, support staff and management. It is for this reason that considerable work and effort has been, and will be, invested in the contact centres for the coming year. The deliverables against the service programme for this fiscal year included:

- Execution of a "four-tier, four-location" contact centre model, co-locating the call centres and assessment centres supported by enhanced scanning centres:
  - o Alberton has become the first integrated node by incorporating the staff from the Megawatt Park call centre, enabling the co-location of the new call centre with its existing assessment centre. All necessary facilities and required infrastructure, including the deployment of wide and local area (WAN/LAN) networks, have been completed to facilitate a Voice Over Internet Protocol (VOIP) and Computer Telephony Interaction (CTI) enabled network.

PART 4: MODERNISATION AGENDA - cont.

- Consolidation and rationalisation of a number of Pretoria CBD buildings and the moving of staff to either the revamped Van der Walt Street building in Pretoria or to the new modern facilities in Doringkloof, Centurion has enabled the creation of the second integrated call centre and assessment facility.
- Modernisation of the Cape Town and Durban facilities started to enable the creation of similar integrated facilities in the Western Cape and KwaZulu-Natal.

- Delivery of a case management transactional system:
  - The introduction of generic queries in support of key business processes (PIT, PAYE, VAT and Customs) allows for improved transaction and workflow interaction between agents and taxpayers as well as improved case management and tracking.

- Introduction of an interactive voice response (IVR) system to support self-service and the optimisation of query handling in the contact centre for improved first contact resolution.
  - A multilingual IVR solution was developed and tested in November 2008. The new IVR capability offers a product selection (PIT, PAYE, VAT and Customs) segmented for individuals and business clients. Languages supported are Afrikaans, English, Tsonga, Tswana, Venda and Zulu.
  - As of March 2009, the IVR has experienced more than 1.3 million callers.

- Staggered deployment of CTI:
  - At the heart of a functional and effective contact centre is its telephony infrastructure and system platforms. SARS has made big inroads into the upgrading of its network infrastructure, to move from a complex legacy infrastructure to a leading edge WAN/LAN technology and to enable the move of all four contact centres to a fully integrated VOIP/CTI/IVR solution.
  - CTI is a technology platform that allows interactions on the telephony system and the computer/application system to be integrated. SARS launched its new CTI platform in the first quarter of 2009. This new technology will be phased in over the next 12 months across the country.

- The provision of an online "knowledge base" to provide answers to Frequently Asked Questions (FAQs), information and scripted responses to assist our staff to provide consistent and quality feedback to our clients:
  - The quality and consistency of service provided to taxpayers, traders and travellers is a critical objective of the service programme. The accuracy of information provided to taxpayers, traders and travellers increases customer satisfaction, increases first contact resolution and prevents repeat calls to the contact centre.
  - To assist contact centre and branch staff in providing accurate and timely information, a repository of FAQs, tax information and scripted responses is available for access via keyword search and is being enhanced for improved search.

3. RISK PROGRAMME

Significant progress has been made in the risk programme. Increasingly the insights that have been discovered in developing the PIT risk engines are being applied to other tax types. Some of the key achievements to date include:

- The development of a new risk operating model, aimed at optimising the application of SARS's limited enforcement capacity by reducing the incidence of non-compliance and by dynamically managing SARS's capacity for manual intervention, ensured highly skilled resources are focused on the highest priority cases. To achieve dynamic management of capacity, a four-step approach was developed:
    - o Re-engineering current processes to increase their capacity through reducing waste and improved people management
    - o Prioritising cases to optimise the use of scarce enforcement resources, ensuring high-risk, high-value cases are handled first
    - o Creating new operational capacity to maximise coverage of low-value, low-risk cases through scripting, systematisation and re-allocation of staff to higher value-added work with the introduction of automation
    - o Embedding continuous learning and feedback through active recording and analyses of findings and promoting people development.

- The PIT risk engine has been enhanced to use empirical and statistical data. Risk management in PIT has now evolved to a state of maturity and consists of a number of components:
    - o Pre-population of more than 97% of tax returns in our first year of operation vastly reduced the number of errors introduced by manual capture.
    - o Declaration variance validation identifies where the taxpayer submits information on the return that differs materially from third party data in our possession. The error rate on declaration variance has dropped to less than 3.5% of tax returns versus more than 10% in the previous year.
    - o The automated risk engine screens the return to identify anomalous information contained therein for investigation.

- The risk engine integration with eCase management: eCase management is being launched by tax type e.g. PIT, PAYE. The objective of the audit eCase capability is to re-engineer the audit process end-to-end in both enforcement and operations business areas and to provide a workflow solution that assists auditors to plan, execute and finalise cases, including the conclusion of the case (feedback).

4. CUSTOMS PROGRAMME

Replacement of customs legacy system

Early in 2008, driven by increasing operational pressures and a need to modernise Customs' technology and business processing infrastructure, work began on the SARS customs modernisation programme. After considerable analysis of the end-to-end Customs processes and current environment, a clear understanding of the major Customs business issues from a people, process, technology and legislative point of view was gained. A high-level solution design based on leading practices was defined to address these business challenges, and

PART 4: MODERNISATION AGENDA - cont.

was backed by a business case and a road map. The cornerstone of the modernisation programme will be the replacement of the existing systems with a locally developed customs software platform, known as TATIScms. The TATIScms solution is currently in use in Luxembourg and was the preferred customs technology platform recommended by Accenture in 2006 as part of their proposal to the SARS modernisation tender.

The new system will replace more than 30 legacy systems within the SARS customs environment, many of which were developed over time to cope with increasing growth in trade. The core system, CAPE, was commissioned in 1979 and is based on first generation technology originally designed for batch data capture.

To ensure the long-term sustainability of the product, SARS has committed itself to purchasing the full rights to the TATIScms software and will, through a wholly-owned subsidiary company, further develop and implement the solution within SARS, as well as for other potential customs administrations in Africa and globally. SARS has also formed a business relationship with Accenture and local software developer TATIS Africa (Pty) Ltd to market and implement the system internationally. As part of the deal, about 35 employees of TATIS Africa will transfer to SARS to work on the development and implementation of the solution, thereby boosting SARS's customs technology expertise.

Customs: deployment of non-intrusive inspection equipment (cargo scanner)

- The site for the scanner at the port of Durban was fully prepared, accepted and manned with appropriate resources. The scanner was officially handed over to customs border control unit (CBCU) operations on 1 July 2008
- Ongoing post-implementation scanner performance assessment revealed that scanning and inspection efficiencies were unsatisfactory; a team was mandated to acquire better targeting models, focus on throughput efficiencies and review the integration of the NII, inspection, unpack and State Warehousing processes. This has produced a significant improvement in throughput from approximately 567 scans per month (September 2008) to 2 038 by March 2009, an improvement in excess of 300%
- Further deployment of scanners at ports is being looked at in conjunction with a new approach which will integrate targeting, inspection, and State Warehousing processes within the context of an optimised modality for maritime ports

5. SUPPORT SERVICES

The support programme seeks to ensure that:

- The human resources side of the modernisation of SARS is not neglected
- Support functions that underpin the tax, customs and financial systems are modernised.

Key achievements over the past 12 months include:

- The SAP human resources project was implemented in August 2008. The SAP software modules that were implemented include: payroll, personnel administration, time management as well as the self-service modules for employees and managers (ESS and MSS), accessible via the SARS Intranet. SARS staff members were all trained on the employee self service and manager self service functionality, with the training effort receiving greater than 80% positive feedback rating.

- The Assets Modernisation Project was launched in the second half of 2008/2009 to address specific risks and issues highlighted by the Auditor-General. The project's main aims are to validate the fixed assets register and to put in place supporting and enabling policies, procedures, organisational units and software tools to maintain the integrity of the register.

- Payment reform:
  - The technical solution for processing PIT refunds through Bankserv was developed and tested. The software was deployed to the SARS production environment and is now awaiting final activation pending the finalisation of commercial contracts between SARS and its banking partners.
  - Account verification: agreement was reached between SARS and the Payments Association of South Africa (PASA) on the application of account verification and electronic funds transfer (EFT) rules. This agreement also clarified the contracting relationships between SARS, Bankserv and the banking partners.

The modernisation of SARS holds benefits for all stakeholders. For SARS and our clients – taxpayers, traders and the practitioners, clearing agents and others who represent them – the 2007 and 2008 modernisation programmes have contributed to reducing the administrative burden through simplifying and automating the entire taxation process and increasing the speed and accuracy of processing and service to taxpayers. For our country, the improved ability to detect and deter non-compliance holds fiscal rewards and a more even spreading of the tax burden. These gains have been realised through a partnership between all divisions of SARS in the conceptualisation, design, testing and implementation of the envisaged changes.

PART 5: SARS FINANCIAL STATEMENTS

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2009 in terms of Treasury Regulations 3.1.1.9 and 10. Whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

Audit Committee Members and Attendance

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

The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. Audit Committee consisted of five external members listed hereunder and held five meetings for the financial year under review. Note should be taken that for the period under review, Prof. Dillip Garach temporarily recused himself from the SARS governance structures for personal reasons. Mr Vuyo Kahla was appointed as an additional member of the Audit Committee for the period under review.

Audit Committee

Member	Date 0f Meeting				
	22 May 08	29 July 08	19 Sept 08	21 Nov 08	20 March 09
Mr Bongani Nqwababa (Chairperson) (Duration of Service: 07 April '06 to date) Chief Financial Officer: Anglo Plat • B. Acc (Hons), 1989, University of Zimbabwe. • CA (Zim) 1991; • MBA in Finance, 1999, Universities of Manchester and Wales, Bangor	√	√	√	X	√
Mr Mustaq Brey (Duration of Service: 17 April '03 to date) • CEO : Brimstone Investment Corporation Limited • B.Compt (Hons); CA (SA)	√	√	√	√	√
Ms Berenice Lue-Marais (Duration of Service: 17 April '03 to date) Head: Africa, CSIR Market & Business Development; and International Development Finance Manager, CSIR International Relations, CSIR, Pretoria • MBA International Finance, 1992 The American University, Washington, D.C. • Bachelor of Arts, BA Economics, August 1988 The University of the District of Columbia, Washington, D.C.	√	√	X	√	X

REPORT OF THE AUDIT COMMITTEE - cont.

Member	Date Of Meeting				
	22 May 08	29 July 08	19 Sept 08	21 Nov 08	20 March 09
Prof Dilip Garach (Duration of Service: 28 Jan '02 to date) Accounting Professor at Natal University; Consulting Partner at Garach & Garach • MCom; CA(SA); CFP	Temporarily recused	Temporarily recused	Temporarily recused	Temporarily recused	Temporarily recused
Mr Vuyo Kahla (Duration of Service: 29 July '08 to date) Group Executive: Office of the Group Chief Executive: Transnet Limited • Bachelor of Arts, Rhodes University • LLB, Rhodes University	Not yet appointed as member	√	√	√	√

Audit Committee responsibility

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

The effectiveness of internal control

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

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

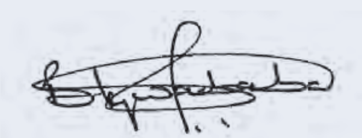
The Audit Committee satisfied itself that SARS took the necessary steps to maintain the effective functioning of its Internal Audit unit. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

Evaluation of Financial Statements

The Audit Committee has:

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

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



Bongani Nqwababa
Chairperson: Audit Committee
23 July 2009

ADMINISTERED REVENUE

ANNUAL FINANCIAL STATEMENTS

31 March 2009

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The attached annual financial statements were approved and signed by:

Date: 23 July 2009

Oupa G. Magashula
Acting Commissioner
South African Revenue Service

ADMINISTERED REVENUE
REPORT OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Revenue Service (SARS): Administered Revenue which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 96 to 105.

The accounting authority's responsibility for the financial statements

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

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

ADMINISTERED REVENUE
REPORT OF THE AUDITOR-GENERAL

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis of accounting

7. SARS: Administered Revenue's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the South African Revenue Service: Administered Revenue as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA.

Other matters

Without qualifying my opinion, I draw attention to the following matter that relate to my responsibilities in the audit of the financial statements:

Governance framework

9. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

10. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

ADMINISTERED REVENUE
REPORT OF THE AUDITOR-GENERAL

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 55 of the PFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The public entity had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit		
	The public entity had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Powers and duties have been assigned, as set out in section 56 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA/Oversight resolutions have been substantially implemented.	N/A	

ADMINISTERED REVENUE

REPORT OF THE AUDITOR-GENERAL

No.	Matter	Y	N
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the SARS against its mandate, predetermined objectives, outputs, indicators and targets Treasury Regulation 30.1.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

11. I have reviewed the performance information as set out on pages 18 to 47.

The accounting authority's responsibility for the performance information

12. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

13. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

15. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

ADMINISTERED REVENUE
REPORT OF THE AUDITOR-GENERAL

OTHER REPORTS

Special audits

16. As requested by SARS: Administered Revenue and the Road Accident Fund (RAF), two assurance audits on the Certificate of Diesel Refund Claims as owed by the RAF was concluded during the year under review. The first report covered the period April 2006 to March 2007 and was tabled on 27 June 2008 and the second report covered the period April 2007 to December 2007 and was tabled on 5 December 2008.

APPRECIATION

17. The assistance rendered by the staff of the South African Revenue Service: Administered Revenue during the audit is sincerely appreciated.

Auditor-General

Pretoria
31 July 2009

AUDITOR - GENERAL
SOUTH AFRICA
Auditing to build public confidence

ADMINISTERED REVENUE

STATEMENT OF FINANCIAL POSITION

as at 31 March 2009

	Notes	2009 R'000	2008 R'000
ADMINISTERED ASSETS			
Current assets			
Bank	2	-	119,521
Cash and cash equivalents	3	12,280	21,642
Accounts receivable	4	5,433	3,123
Other assets	5	349	626
Total administered assets		**18,062**	**144,912**
ADMINISTERED LIABILITIES			
Amount due to National Revenue Fund		10,742	144,907
Current liabilities			
Bank	2	7,320	-
Other liabilities	6	-	5
Total administered liabilities		**18,062**	**144,912**

ADMINISTERED REVENUE
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2009

	Notes	2009 R'000	2008 R'000
Taxation		**644,032,431**	**589,094,667**
Income tax	7	383,431,105	332,045,467
Value-added tax		154,343,121	150,442,849
Fuel levy		25,219,608	24,065,146
Customs duties		22,751,023	26,469,760
Excise duties		21,354,071	19,698,901
Unemployment insurance fund		10,096,866	8,954,337
Other taxes	8	10,048,919	12,440,992
Road accident fund	9	9,815,077	8,855,313
Skills development levy		7,327,463	6,330,917
Air passenger tax		549,364	540,635
Universal service fund		207,167	181,085
Plastic bag levy		78,563	86,314
Small business tax amnesty		51,627	12,828
Diesel refunds		(1,241,543)	(1,029,877)
Non-taxation		**818,128**	**915,181**
Mining leases and ownership		708,580	56,032
Customs miscellaneous revenue	10	101,239	612,024
Provincial administration receipts	11	32,775	32,783
Non-tax revenue	12	(24,466)	214,342
TOTAL REVENUE		**644,850,559**	**590,009,848**
Less: South African Customs Union Agreement			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	13	28,920,625	24,712,567
NET REVENUE FOR THE YEAR		**615,929,934**	**565,297,281**

ADMINISTERED REVENUE
STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 March 2009

	R'000
AMOUNT DUE (TO) / BY NATIONAL REVENUE FUND	
Balance at 31 March 2007	**863,958**
Net gains and losses not recognised in the statement of financial performance	(1,008,865)
Net revenue for the year	(565,297,281)
Transfer to the National Revenue Fund	564,288,416
Balance at 31 March 2008	**(144,907)**
Net gains and losses not recognised in the statement of financial performance	134,165
Net revenue for the year	(615,929,934)
Transfer to the National Revenue Fund	616,064,099
Balance at 31 March 2009	**(10,742)**

ADMINISTERED REVENUE

CASH FLOW STATEMENT

for the year ended 31 March 2009

	Notes	2009 R'000	2008 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	14	644,864,246	589,277,353
Taxation		644,046,118	588,362,172
Non - taxation		818,128	915,181
Cash transferred		(644,984,724)	(589,000,983)
Payments in respect of Customs Union Agreement		(28,920,625)	(24,712,567)
Cash to National Revenue Fund		(616,064,099)	(564,288,416)
Net cash (transferred)/retained from operations		(120,478)	276,370
Cash and cash equivalents at beginning of year		216,553	(59,817)
Cash and cash equivalents at end of year	**15**	**96,075**	**216,553**

ADMINISTERED REVENUE
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

1. Accounting Policies

1.1 Basis of accounting

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

By virtue of the powers vested in the Minister of Finance by section 91(1) (b) of the PFMA, the Minister prescribed the Standards of Generally Recognised Accounting Practice as set by National Treasury in terms of section 89(1) (a) (ii), read with section 93(3) of that Act, for the annual financial statements of national public entities, in respect of taxes, duties, levies, fees and other monies collected by such entities which must be deposited into a Revenue Fund as defined in that Act. This was promulgated in government notice number R. 1095 dated 30 October 2001.

The Accounting Standards Board (ASB) approved the Revenue from Non-Exchange Transactions standard (GRAP 23) in February 2008. This standard provides for the accrual principle to be adopted when recognising and measuring taxation revenue arising from non-exchange transactions. The transitional provisions are stipulated in the Directive on Transitional Provisions for the South African Revenue Service Administered Revenue Exposure Draft 57 (ED 57), which was issued for comment by the ASB in March 2009. ED 57 proposes a 5 year transitional period starting from the effective date of the final standard. SARS will be required to change the accounting policies in respect of the recognition and measurement of taxation revenue at the expiration of the 5 year period and changes prior to this date may only be made in order to better conform to the Standards of GRAP. The final standard will become effective through the issue of a regulation.

Approval to remain on the cash basis of accounting for financial statements and audit purposes until at least March 2012 was obtained from the Minister of Finance on 23 April 2007.

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

1.2 Revenue recognition

1.2.1 Definition of revenue

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

1.2.2 Recognition of revenue

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

ADMINISTERED REVENUE
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

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

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

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

1.3 Revenue not recognised - tax evasion

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

1.4 Cash and cash equivalents

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

1.5 Accounts receivable

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

1.6 Bank

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

1.7 Amount due to/by the National Revenue Fund

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

ADMINISTERED REVENUE
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R'000	2008 R'000

2. Bank

The bank balance of R7 320 024 for the 2008/09 financial year represents a liability whilst the bank balance of R119 521 174 for the 2007/08 financial year represented an asset.

2008/09: Bank comprises of cheques issued but not yet presented for payment amounting to R91 114 712, net reconciling items amounting to R70 449 294 and monies not transferred to the National Revenue Fund by the banks at 31 March amounting to R13 345 394.

2007/08: Bank comprises monies not transferred to the National Revenue Fund by the banks at 31 March amounting to R135 533 167, cheques issued but not yet presented for payment amounting to R75 390 139 and net reconciling items amounting to R59 378 146.

	2009 R'000	2008 R'000
3. Cash and cash equivalents	**12,280**	**21,642**
Cash on hand	12,280	21,642
4. Accounts receivable	**5,433**	**3,123**
South African Post Office Limited (VAT)	3,342	2,952
South African Post Office Limited (Stamp duty)	2,091	171
5. Other assets	**349**	**626**
Provincial administration	347	451
Receivables	2	175

The provincial debtor of R347 374 relates to monies owing by the Eastern Cape province as a result of an overpayment of provincial revenue by SARS during the 1999/2000 financial year.

	2009 R'000	2008 R'000
6. Other liabilities	**-**	**5**
Accounts payable	-	5
7. Income tax	**383,431,105**	**332,045,467**
Pay as you earn	183,695,410	158,106,165
Persons, individuals and companies	179,574,865	153,068,524
Secondary tax on companies	20,017,578	20,585,421
Tax on retirement fund industry	143,252	285,357

ADMINISTERED REVENUE
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R'000	2008 R'000
8. Other taxes	**10,048,919**	**12,440,992**
Transfer duties	4,930,865	7,408,173
Securities transfer tax	2,324,112	-
Marketable securities tax	1,340,372	3,757,114
Estate duty	756,737	691,031
Stamp duty	531,758	531,027
Donations tax	124,994	27,551
Master fees	40,081	26,096

Securities transfer tax replaced marketable/uncertificated securities tax and came into operation on 1 July 2008.

9. Road accident fund	**9,815,077**	**8,855,313**
Road accident fund levy	8,909,364	8,150,071
Road accident fund (Recoupment)	905,713	705,242

Road Accident Fund levy is payable on the production of fuel. The recoupment represents the amount due to SARS by the Road Accident Fund in respect of that portion of the diesel refunds already effected to qualifying industries.

10. Customs miscellaneous revenue	**101,239**	**612,024**
Customs miscellaneous revenue	100,941	624,319
Revenue in respect of other departments	298	(12,295)

Customs miscellaneous revenue primarily comprises payments from traders that have yet to be allocated to the appropriate duty types.

11. Provincial administration receipts	**32,775**	**32,783**
Provincial administration consolidated account	32,775	32,783

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

ADMINISTERED REVENUE

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

	2009 R'000	2008 R'000
12. Non-tax revenue	**(24,466)**	**214,342**
State fines and forfeitures	2,975	2,104
State licenses	-	2
State miscellaneous revenue	(27,441)	212,236
13. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	**44,105,094**	**46,168,661**
Namibia	446,017	361,017
Botswana	311,630	149,636
Lesotho	110,249	100,318
Swaziland	64,310	135,074
Sub-total	**932,206**	**746,045**
South Africa	43,172,888	45,422,616

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

	2009 R'000	2008 R'000
Received from the Common Customs Pool	**44,105,094**	**46,168,661**
Botswana	9,472,781	9,001,361
Namibia	8,502,148	6,621,845
Swaziland	6,009,031	4,989,031
Lesotho	4,900,961	4,097,684
Secretariat	35,704	2,646
Sub-total	**28,920,625**	**24,712,567**
South Africa	15,184,469	21,456,094

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

ADMINISTERED REVENUE
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R'000	2008 R'000
14. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year as per statement of financial performance	615,929,934	565,297,281
Adjusted for:		
Payments in terms of Customs Union Agreement	28,920,625	24,712,567
Increase / (Decrease) cheques not yet presented for payment	15,725	(734,601)
(Increase) / Decrease in other assets	277	(78)
Increase / (Decrease) in other liabilities	(5)	(5)
(Increase) / Decrease in accounts receivable	(2,310)	2,189
Total cash received as per cash flow statement	**644,864,246**	**589,277,353**
15. Cash and cash equivalents in respect of cash flow statement	**96,075**	**216,553**
Cheques issued but not yet presented for payment	91,115	75,390
Cash and cash equivalents (as per statement of financial position)	12,280	21,642
Bank (as per statement of financial position)	(7,320)	119,521

16. Sureties

(i) Lien - Sanlam shares

991 755 (1 327 692: 2007/08) Sanlam shares with a market value of R16 701 154 (R25 358 917: 2007/08) are held in respect of amounts owing by 1 560 (2 181: 2007/08) taxpayers at 31 March 2009.

(ii) Lien - Old Mutual shares

1 910 700 (2 016 600: 2007/08) Old Mutual shares with a market value of R13 374 900 (R35 633 322: 2007/08) are held in respect of amounts owing by 2 585 (6 122: 2007/08) taxpayers at 31 March 2009.

(iii) Guarantees

Guarantees issued in favour of SARS amounting to R59 202 209 (R55 211 955: 2007/08) are held as security for various taxes payable.

Guarantees issued by financial institutions in favour of SARS amounting to R4 492 921 812 (R4 605 802 668: 2007/08) are held as security for various duties payable.

17. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes to the amount of R4 670 594 746 (R3 845 376 807: 2007/08) has been written off on or prior to 31 March 2009. Amounts still awaiting approval for write-off do not form part of actual write-offs.

Irrecoverable debt in respect of administered duties to the amount of R73 435 207 (R105 651 955: 2007/08) has been written off on or prior to 31 March 2009. Amounts still awaiting approval for write-off do not form part of actual write-offs.

ADMINISTERED REVENUE

UNAUDITED ANNEXURES

31 March 2009

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

ADMINISTERED REVENUE
UNAUDITED ANNEXURE 1

TAXES

Unaudited Outstanding Debt (Receivables) as at 31 March 2009

2008/2009	1 - 3 Months	4 - 6 Months	7 - 8 Months	9 Months >	Interest	Total	New Debt	Total Debt
	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands
Income Tax	1,360,827,857	1,723,363,564	757,121,630	14,237,304,265	9,298,514,117	27,377,131,433	7,978,178,928	35,355,310,361
Individuals	585,065,931	535,288,681	256,676,332	6,714,628,389	3,782,955,655	11,874,614,988	3,358,038,913	15,232,653,901
Trusts	44,839,383	25,876,701	13,630,424	179,492,229	79,282,291	343,121,028	250,545,101	593,666,129
Companies	730,922,543	1,162,198,182	486,814,874	7,343,183,647	5,436,276,171	15,159,395,417	4,369,594,914	19,528,990,331
PAYE	581,097,926	472,853,059	263,080,691	8,765,232,570	-	10,082,264,246	888,762,868	10,971,027,114
VAT	623,611,398	781,418,470	560,045,048	15,947,774,384	-	17,912,849,300	772,264,934	18,685,114,234
STC	108,964,542	88,333,156	85,993,163	1,269,649,291	562,871,392	2,115,811,544	158,296,603	2,274,108,147
Sub-Total	**2,674,501,723**	**3,065,968,249**	**1,666,240,532**	**40,219,960,510**	**9,861,385,509**	**57,488,056,523**	**9,797,503,333**	**67,285,559,856**
Diesel	-	-	-	-	-	1,163,381	-	1,163,381
SDL	-	-	-	-	-	892,517,337	-	892,517,337
UIF	-	-	-	-	-	1,448,879,331	-	1,448,879,331
Total	**2,674,501,723**	**3,065,968,249**	**1,666,240,532**	**40,219,960,510**	**9,861,385,509**	**59,830,616,572**	**9,797,503,333**	**69,628,119,905**

TAXES

Unaudited Outstanding Debt (Receivables) as at 31 March 2008

2007/2008	1 - 3 Months	4 - 6 Months	7 - 8 Months	9 Months >	Interest	Total	New Debt	Total Debt
	Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands
Income Tax	1,169,990,478	732,343,991	519,332,272	19,079,226,093	9,513,884,330	31,014,777,164	5,002,874,422	36,017,651,586
Individuals	565,700,257	317,159,434	269,679,357	6,890,053,314	3,320,179,152	11,362,771,514	2,470,259,705	13,833,031,219
Trusts	23,301,026	12,673,749	11,032,917	196,105,467	93,868,534	336,981,693	229,487,775	566,469,468
Companies	580,989,195	402,510,808	238,619,998	11,993,067,312	6,099,836,644	19,315,023,957	2,303,126,942	21,618,150,899
PAYE	627,360,616	563,905,898	337,737,295	8,112,647,534	-	9,641,651,343	848,132,626	10,489,783,969
VAT	554,945,921	544,286,082	452,675,360	14,625,263,451	-	16,177,170,814	850,144,183	17,027,314,997
STC	324,647,549	91,393,872	49,922,732	1,540,175,433	624,558,493	2,630,698,079	277,512,979	2,908,211,058
Sub-Total	**2,676,944,564**	**1,931,929,843**	**1,359,667,659**	**43,357,312,511**	**10,138,442,823**	**59,464,297,400**	**6,978,664,210**	**66,442,961,610**
Diesel	-	-	-	-	-	1,158,910	-	1,158,910
SDL	-	-	-	-	-	684,111,268	-	684,111,268
UIF	-	-	-	-	-	1,080,761,965	-	1,080,761,965
Total	**2,676,944,564**	**1,931,929,843**	**1,359,667,659**	**43,357,312,511**	**10,138,442,823**	**61,230,329,543**	**6,978,664,210**	**68,208,993,753**

ADMINISTERED REVENUE
UNAUDITED ANNEXURE 2

Unaudited Outstanding Credits (Payables) as at 31 March 2009

2008/2009	Total Credits Rands
Income tax	(11,616,216,678)
Income Tax	**(11,616,216,678)**
PAYE	(16,667,289,263)
Returns not received	7,824,697,350
PAYE	**(8,842,591,914)**
VAT	(27,992,226,130)
Returns not received	5,846,837,695
VAT	**(22,145,388,435)**
UIF	(1,108,169,991)
Returns not received	556,748,180
UIF	**(551,421,811)**
SDL	(1,041,355,814)
Returns not received	500,796,084
SDL	**(540,559,730)**
Sub-Total	**(43,696,178,567)**
Diesel	(25,117,262)
STC	(1,787,500,241)
Total	**(45,508,796,070)**

Unaudited Outstanding Credits (Payables) as at 31 March 2008

2007/2008	Total Credits Rands
Income tax	(8,664,137,615)
Income Tax	**(8,664,137,615)**
PAYE	(18,287,719,420)
Returns not received	10,198,163,758
PAYE	**(8,089,555,662)**
VAT	(21,613,635,745)
Returns not received	8,175,218,533
VAT	**(13,438,417,212)**
UIF	(1,215,802,374)
Returns not received	707,338,616
UIF	**(508,463,758)**
SDL	(1,102,236,766)
Returns not received	596,599,323
SDL	**(505,637,443)**
Sub-Total	**(31,206,211,690)**
Diesel	(330,568,036)
STC	(1,805,246,973)
Total	**(33,342,026,699)**

ADMINISTERED REVENUE
UNAUDITED ANNEXURE 3

DUTIES

Unaudited Outstanding Debt (Receivables) as at 31 March 2009

2008/2009	Debt Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Customs duty	624,530,986	141,992,184	766,523,170	42,792,487	809,315,656
Value-added tax	288,484,043	92,527,857	381,011,900	14,317,759	395,329,659
Surcharge	449,779	250,924	700,703	-	700,703
Fuel levy	(760,378)	1,074,707	314,330	-	314,330
P2A - Excise duty	51,186,106	12,505,137	63,691,243	2,035,871	65,727,114
P2B - Ad valorem	15,588,403	8,339,076	23,927,479	8,031	23,935,510
Penalties	52,467,604	-	52,467,604	241,728	52,709,332
Forfeiture	458,517,606	-	458,517,606	107,909	458,625,515
Unallocated	(824,028)	-	(824,028)	(233,995)	(1,058,023)
Total	**1,489,640,122**	**256,689,885**	**1,746,330,007**	**59,269,788**	**1,805,599,795**

DUTIES

Unaudited Outstanding Debt (Receivables) as at 31 March 2008

2007/2008	Debt Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Customs duty	472,289,497	153,175,010	625,464,507	21,608,351	647,072,858
Value-added tax	264,650,054	105,226,060	369,876,114	45,573,860	415,449,974
Surcharge	2,800,528	3,477,591	6,278,119	-	6,278,119
Fuel levy	1,290,681	820,617	2,111,298	-	2,111,298
P2A - Excise duty	55,781,221	8,756,052	64,537,273	139,079	64,676,352
P2B - Ad valorem	20,355,801	7,765,805	28,121,606	61,088	28,182,694
Penalties	52,552,970	-	52,552,970	2,202,737	54,755,707
Forfeiture	473,776,014	-	473,776,014	134,323	473,910,337
Unallocated	(388,958)	-	(388,958)	-	(388,958)
Total	**1,343,107,808**	**279,221,135**	**1,622,328,943**	**69,719,438**	**1,692,048,381**

OWN ACCOUNTS
FINANCIAL STATEMENTS
31 March 2009

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The attached financial statements, which have been prepared on the going concern basis, were approved on 31 July 2009 and were signed by:

Oupa G. Magashula
Acting Commissioner
South African Revenue Service

Date: 31 July 2009

OWN ACCOUNTS

REPORT OF THE AUDITOR-GENERAL

31 March 2009

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Revenue Service: Own Accounts (SARS Own Accounts) which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 121 to 124 and 126 to 162.

The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), and the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), and section 28 of the SARS Act, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

OWN ACCOUNTS
REPORT OF THE AUDITOR-GENERAL
31 March 2009

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

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the South African Revenue Services: Own Accounts as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined and prescribed by the National Treasury, as set out in accounting policy note 1.1, and in the manner required by the PFMA.

Basis of accounting

8. Without qualifying my opinion, I draw attention to the accounting policies note 1.1, which describes the basis of accounting. The public entity's policy is to prepare financial statements on the basis of accounting determined and prescribed by the National Treasury.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Governance framework

9. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

10. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	

OWN ACCOUNTS

REPORT OF THE AUDITOR-GENERAL

31 March 2009

No.	Matter	Y	N
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 55 of the PFMA	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The public entity had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit		
	The public entity had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Powers and duties have been assigned, as set out in section 56 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented.	N/A	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by SARS Own Accounts against its mandate, predetermined objectives, outputs, indicators and targets per Treasury Regulation 29.1 and 30.1.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

OWN ACCOUNTS
REPORT OF THE AUDITOR-GENERAL
31 March 2009

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

11. I have reviewed the performance information as set out on pages 18 to 47.

The accounting authority's responsibility for the performance information

12. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

13. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

15. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

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

Auditor-General

Pretoria
31 July 2009

AUDITOR - GENERAL
SOUTH AFRICA
Auditing to build public confidence

OWN ACCOUNTS
REPORT BY THE SARS ACCOUNTING AUTHORITY
for the year ending 31 March 2009

1. INTRODUCTION

The Accounting Authority presents his Annual Report that forms part of the Annual Financial Statements for SARS Own Accounts for the year ended 31 March 2009. Specific reference has been made to Administered Revenue where applicable, alternatively all other statistics quoted are for Own Accounts.

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

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

2. EXECUTIVE MEMBERS

The governance of an institution should be responsive to changing policy, legislative, operational and organizational landscapes. It needs to be periodically reviewed to ensure that its governance framework best enables direction, control, regulation and restraint of the organization.

Accordingly, the SARS executive committee structure was reviewed and fine tuned to make it more responsive to changing business needs and ensure decision making efficiency. The organisational redesign, which took place during the period under review, and specifically the new leadership framework and operating model, required the reconstitution of the ExCo in November 2008. This review mainly comprised a review of memberships of the governance structures, but the governance framework remained largely unchanged.

For the period up until end October 2008, SARS ExCo consisted of the following members:

a) SARS Commissioner: Pravin Gordhan (chairperson)
b) Strategy, Modernisation & Technology: Barry Hore
c) Chief Operations Officer: Edward Kieswetter
d) Enforcement and Risk Management: Ivan Pillay
e) Office of the Commissioner: Jeannee Padiachy
f) Enforcement: Jonas Makwakwa
g) Legal and Policy: Kosie Louw
h) Regional Co-ordination: Leonard Radebe (resigned, August 2008)
i) Communications & Corporate Relations: Logan Wort
j) Risk Management: Mandisa Mokwena
k) HR & Corporate Services: Oupa G. Magashula
l) Finance: Prakash Mangrey
m) Operational Policy & Performance Management: Vuso Shabalala (resigned, June 2008)
n) Large Business Centre: Matsobane Matlwa
o) Chief Information Officer: Tau Mashigo

OWN ACCOUNTS
REPORT BY THE SARS ACCOUNTING AUTHORITY
31 March 2009

As mentioned, ExCo was reconstituted in November 2008 and consisted of the following members, namely:

a) SARS Commissioner: Pravin Gordhan (chairperson)
b) Chief Officer: Modernisation & Technology - Barry Hore
c) Chief Officer: Business Enabling & Delivery Services - Oupa G. Magashula
d) Chief Officer: Strategic Services - Edward Kieswetter
e) Chief Officer: Enforcement & Risk - Ivan Pillay
f) Chief Officer: Legal & Policy - Kosie Louw
g) Group Executive: Segmentation & Research - Mandisa Mokwena
h) Group Executive: Large Business Centre - Matsobane Matlwa (Resigned January 2009)
i) Acting Group Executive: Large Business Centre – Joseph Rock (Acting February 2009)
j) Group Executive: Reputation Management - Logan Wort
k) Group Executive: Taxpayer Services - Nathaniel Mabetwa
l) Chief Officer: Customs & Border Management - Gene Ravele
m) Group Executive: Institutional Enablement and Integrity - Dipuo Mvelazi (Appointed October 2008)
n) Chief Financial Officer - Trix Coetzer (appointed January 2009)
o) Group Executive: Human Resource Management - Dudu Nyamane (Appointed December 2008)

3. ORGANISATIONAL STRUCTURE

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

Refer to the official organogram in the Annual Report page number (reference to be inserted upon completion of the annual report)

4. PRINCIPAL ACTIVITIES

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

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

OWN ACCOUNTS
REPORT BY THE SARS ACCOUNTING AUTHORITY
for the year ending 31 March 2009

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

Own Accounts

The Revenue for the year was made up as follows:

	% change	2009	2008
Transfers from government entities	**14.4%**	**6,302,778**	**5,511,031**
- National Treasury	14.4%	6,302,778	5,511,031
- Criminal Assets Recovery Account (CARA)	-	-	-
Non operating revenue	**9.9%**	**365,679**	**332,662**
- Interest received	16.5%	139,518	119,779
- Other revenue	6.2%	226,161	212,883
	14.1%	**6,668,457**	**5,843,693**

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

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

The surplus for the year was as follows:

	% change	2009	2008
Balance accumulated surplus at 1 April		**640,713**	**404,525**
Restated balance 1 April		655,538	426,699
Nett surplus for the year	-6.8%	134,605	228,831
Capital Reserve movements		8	8
Balance accumulated surplus at 31 March		**790,151**	**655,538**

OWN ACCOUNTS

REPORT BY THE SARS ACCOUNTING AUTHORITY

31 March 2009

Administered Revenue

The net revenue for the year was R 615,929,934 (2008: R 565,297,281). Administered Revenue does not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

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

	% change	2009	2008
Total revenue	9.29%	644,850,559	590,009,848
SA Customs Union Agreement	17.03%	28,920,625	24,712,567
Net revenue	**8.96%**	**615,929,934**	**565,297,281**

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

6. JUDICIAL PROCEEDINGS

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

7. REVIEW OF THE FINANCIAL POSITION

Reserves and accumulated surplus

Reserves and surpluses consist mainly of the initial capital reserve on establishment of SARS, the reserve for revaluation of assets and accumulated surpluses.

Assets

For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives. The dynamic and increasingly mobile nature of the SARS business poses some challenges for the control of assets and, accordingly, SARS is in the process of implementing an improved asset management system.

8. PUBLIC/PRIVATE PARTNERSHIPS

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

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There are no events subsequent to 31 March 2009 affecting the financial statements that requires disclosure.

OWN ACCOUNTS

REPORT BY THE SARS ACCOUNT AUTHORITY

for the year ending 31 March 2009

10. STAKEHOLDER RELATIONS

SARS aims to encourage adherence to tax laws and the adoption of a positive compliance attitude among key professional bodies that are influential in the corporate sector. Through its Corporate Relations Office (CRO), SARS liaises with and proactively addresses issues of mutual interest with all of its key stakeholder groups. An important aspect of this work is regular engagement with umbrella bodies such as the South African Institute for Chartered Accountants, the Chambers of Commerce and Industry South Africa and Business Unity SA.

In the year under review, the CRO completed some commendable projects. The most significant of these was the signing of a landmark banking accord between SARS and the Banking Association of South Africa in January 2009. The Accord was developed over a period of six years, culminating in an agreement that sets standards for appropriate tax behaviour for the banking sector in South Africa. This Accord is the first of its kind in South Africa and one of the few such accords in the world to promote better tax compliance among banks and their clients.

Another significant achievement was a programme of engagement with big business. This was part of an ongoing initiative led by the Commissioner to engage key industry in South Africa with the view to establish appropriate partnerships, enhance current partnerships and discuss issues of tax morality and tax avoidance.

An introductory meeting between SARS and the South African Securitisation Forum meeting took place on the 23 February 2009 to explore areas of interaction. SARS also participated in the South African Payroll Association's annual conference on the 2nd, 4th and the 11 September 2008 in Durban, Cape Town and Johannesburg and agreed to enter into a partnership to educate the association's members in basic tax education and the assessment process.

Senior executives of Standard Chartered Bank attended a meeting with SARS to introduce and explore areas of cooperation/partnership.

The CRO also facilitated a number of high level meetings and workshops on the changes to the income tax assessment process with South Africa's leading executives from business and business chambers and professional associations. It has communicated regularly on all issues concerning Tax Season 2008/09 to all its stakeholders.

11. CORPORATE SOCIAL RESPONSIBILITY

The Corporate Social Investment unit continues to promote SARS as a socially responsible institution by encouraging staff volunteerism in the community and by leveraging resources toward poverty alleviation and sustainable development.

During the year under review the unit facilitated a number of initiatives aimed at benefitting the poor, the homeless and victims of the "xenophobia" attacks that broke out in parts of the country. Initiatives were also taken to donate disused furniture and equipment to schools and NGOs.

OWN ACCOUNTS

REPORT BY THE SARS ACCOUNTING AUTHORITY

31 March 2009

Among the unit's most significant achievements were the donation of about 160 tons of second hand clothing and plasticware between June and September 2008 to beneficiaries across the country. This included: 80 tons donated to the Gauteng xenophobia relief camps, 35 tons to the Western Cape relief camps, a 20 foot container donated to Mpumalanga Disaster Management, 4 tons sent to the South Coast for flood victims/ refugees, 1 ton sent to Komatipoort to temporary camps of Mozambicans awaiting expatriation, 1200 bales donated to KZN Disaster Management for assisting the homeless as a result of wild fire destruction.

The unit also facilitated the donation of the following disused furniture and equipment: office furniture to upscale the capacity of Red Cross HQ and some offices to meet demands of xenophobia crisis, beds to Northern Cape Red Cross office and furniture to local schools in Robertson.

In addition, the unit is engaged in ongoing discussions with the Department of Education and in negotiations with Microsoft and recycling agencies to facilitate the donation of PCs to schools pending the release of such equipment and authorisation for its donation.

The unit also established relations with various relief agencies and NGOs including the UN, Red Cross, National and Provincial departments and local community volunteer organisations.

SARS staff in all regions are also engaged in a diverse number of activities in support of charities and in meeting their community's social development needs. Amongst these was a Ficksburg border control team that hosted local grade 11 pupils on the theme of crime fighting, specifically educating them on the challenge of cross border crime and Port Elizabeth staff who held a golf fundraiser for a local shelter for women and girls to mark 16 days of activism against women and children.

12. ADDRESSES

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

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

Addresses for SARS other offices are available from SARS.

Oupa Magashula

Date: 31 July 2009

Oupa G Magashula
Acting Commissioner
South African Revenue Service

OWN ACCOUNTS

STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2009

	Notes	2009 R '000	2008 R'000
ASSETS			
Current Assets		1,063,031	1,153,927
Trade and other receivables	3	81,361	81,411
Cash and cash equivalents	4	981,670	1,072,516
Non-Current Assets		1,108,500	818,249
Property, plant and equipment	5	771,696	610,812
Intangible assets	6	336,804	207,437
TOTAL ASSETS		**2,171,531**	**1,972,176**
NET ASSETS AND LIABILITIES			
Net Assets		851,941	688,713
Asset revaluation reserve	12	29,426	811
Capital reserve on establishment	13	32,364	32,364
Accumulated surplus		790,151	655,538
Liabilities			
Current Liabilities		964,034	859,508
Finance lease obligation	7	16,471	76,741
Trade and other payables	8	590,944	440,961
Deferred income	9	986	6,899
Provisions	10	355,633	334,907
Non-Current Liabilities		355,556	423,955
Financial guarantee contracts	11	5,014	8,499
Finance lease obligation	7	139,844	212,174
Operating lease liability		209,881	201,609
Deferred income	9	817	1,673
Total Liabilities		1,319,590	1,283,463
TOTAL NET ASSETS AND LIABILITIES		**2,171,531**	**1,972,176**

OWN ACCOUNTS

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2009

	Notes	2009 R '000	2008 R'000
REVENUE		**6,668,457**	**5,843,693**
Transfers from government entities	15	6,302,778	5,511,031
Other income	16	365,679	332,662
EXPENSES		**6,528,090**	**5,615,254**
Administrative expenses		1,295,718	1,113,608
Amortisation		104,200	53,332
Depreciation		172,102	164,920
Impairments of fixed and intangible assets	17	23,365	5,768
Revaluation of fixed property	5	65,495	-
Employee costs		4,011,487	3,500,297
Professional and special services		830,742	743,799
Other expenses		(23)	2,538
Finance costs	19	25,004	30,992
(Losses)/ Gains on sale of property, plant and equipment		(5,762)	392
SURPLUS FOR THE YEAR		**134,605**	**228,831**

OWN ACCOUNTS

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2009

	Asset revaluation reserve R '000	Capital reserve R '000	Total reserves R '000	Accumulated surplus R '000	Total net assets R '000
Opening balance as previously reported	819	32,364	33,183	404,525	437,708
Adjustments					
Prior year adjustments	-	-	-	22,174	22,174
Balance at 01 April 2007	**819**	**32,364**	**33,183**	**426,699**	**459,882**
Changes in net assets:					
Depreciation based on the revalued portion of assets	(8)	-	(8)	8	-
Net income (expenses) recognised directly in net assets	(8)	-	(8)	8	-
Surplus for the year	-	-	-	228,831	228,831
Total recognised income and expenses for the year	-	-	-	228,839	228,831
Total changes	**(8)**	**-**	**(8)**	**228,839**	**228,831**
Balance at 01 April 2008 as restated	**811**	**32,364**	**33,175**	**655,538**	**688,713**
Opening balance as previously reported	811	32,364	33,175	640,713	673,888
Adjustments					
Prior year adjustments	-	-	-	14,825	14,825
Changes in net assets					
Depreciation based on the revalued portion of assets	(8)	-	(8)	8	-
Net income (expenses) recognised directly in net assets	(8)	-	(8)	8	-
Surplus for the year	-	-	-	134,605	134,605
Total recognised income and expenses for the year	(8)	-	(8)	134,613	134,605
Impairment loss recognised in equity	(341)	-	(341)	-	(341)
Surplus in revaluation of property	28,964	-	28,964	-	28,964
Total changes	**28,615**	**-**	**28,615**	**134,613**	**163,228**
Balance at 31 March 2009	**29,426**	**32,364**	**61,790**	**790,151**	**851,941**
Notes	12	13			

OWN ACCOUNTS

CASH FLOW STATEMENT

for the year ended 31 March 2009

	Notes	2009 R '000	2008 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		6,666,150	5,818,476
Grant		6,302,778	5,511,031
Interest received		146,020	112,681
Other receipts		217,352	194,764
Payments		5,988,351	5,197,190
Employee costs		3,962,825	3,414,596
Suppliers		2,000,522	1,751,602
Interest paid		25,004	30,992
Net cash flow from operating activities	**22**	**677,799**	**621,286**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	5	(392,887)	(225,631)
Proceeds on disposal of property, plant and equipment		744	544
Acquisition of intangible assets	6	(240,417)	(216,826)
Net cash from investing activities		**(632,560)**	**(441,913)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of financial guarantee contracts		(3,485)	(639)
Movement in financial leases		(132,600)	(17,394)
Net cash from financing activities		**(136,085)**	**(18,033)**
Total cash movement for the year		(90,846)	161,340
Cash at the beginning of the year		1,072,516	911,176
TOTAL CASH AT THE END OF THE YEAR	**4**	**981,670**	**1,072,516**

OWN ACCOUNTS

GENERAL INFORMATION

for the year ended 31 March 2009

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

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

LEGAL FORM OF ENTITY

In accordance with the Public Finance Management Act (No.1 of 1999) (PFMA) chapter 6, paragraph 48, SARS is classified as a "National Public Entity".

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

1. Accounting Policies

1.1 Presentation of Financial Statements

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements.

The cash flow statement is prepared in accordance with the direct method and there are no restrictions on cash balances.

Paragraphs 11 – 15 of GRAP 1 have not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non disclosure will not affect the objective of the financial statements.

These accounting policies are consistent with the previous period.

1.2 Significant judgements and sources of estimation uncertainty

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

Provisions

- Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 10 Provisions.

Allowance for doubtful debts

- On debtors an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Property, plant and equipment other than land and buildings is carried at cost less accumulated depreciation and any impairment losses.

Land and Buildings is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date.

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

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

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

The residual value and the useful life of each asset are reviewed at each financial period end.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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

1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

The amortisation period and the amortisation method for intangible assets are reviewed every period end.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit designated
- Loans and receivables
- Financial liabilities at fair value through surplus or deficit designated

Classification depends on the purpose for which the financial instruments were obtained or incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

Impairment of financial assets

At the end of each reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available for sale.

Impairment losses are also not subsequently reversed for available for sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through profit and loss

Financial guarantee contacts are classified as financial instruments designated as at fair value through profit and loss.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument.

SARS provides financial guarantees for employee housing loans to financial institutions.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

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

Finance leases – lessee

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

1.7 Impairment of assets

The entity assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Employee benefits

Short-term employee benefits

Remuneration to employees is charged to the Statement of Financial Performance. Provisions are made for accumulated leave and performance bonuses.

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Entitlement to retirement benefits is governed by the rules of the GEPF (Government Employees Pension Fund) which is a defined contribution plan retirement fund. The entity has no legal or constructive obligation to pay for future benefits which responsibility vests with National Government.

1.9 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 24.

1.10 Government grants

SARS's main source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenue.

1.11 Investment income

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

1.12 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

1.13 Translation of foreign currencies

Foreign currency transactions

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

At each statement of financial position date foreign currency monetary items are translated using the closing rate.

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

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

1.14 Comparative figures

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

1.15 Research and development expenditure

Research costs are charged against operating surplus or deficit as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

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

Where development costs are deferred, they are written off on a straight line basis over the life of the process or product, subject to a maximum of three years. The amortisation begins from the commencement of the commercial production of the product or use of the process to which they relate.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

2. New standards and interpretations

2.1 Standards and interpretations not yet effective

The entity has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2009 or later periods:

May 2008 Annual Improvements to IFRS's: Amendments to IFRS 7 (AC 144) Financial Instruments: Disclosures

The amendment relates to changes in the Implementation Guidance of the Standard. 'Total interest income' was removed as a component of finance costs from paragraph IG13. This was to remove inconsistency with the requirement of IAS 1 (AC 101) Presentation of Financial Statements which precludes the offsetting of income and expenses.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The entity expects to adopt the amendment for the first time in the 2010 financial statements.

It is unlikely that the amendment will have a material impact on the entity's financial statements.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

IAS 39 (AC 133) prohibits the classification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.

The amendments have also removed references to the designation of hedging instruments at the segment level.

The amendments further clarify that the revised effective interest rate calculated when fair value hedge accounting ceases, in accordance with paragraph 92 IAS 39 (AC 133) should be used for the remeasurement of the hedged item when paragraph AG8 of IAS 39 (AC 133) is applicable.

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NOTES TO THE FINANCIAL STATEMENTS
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The effective date of the amendment is for years beginning on or after 01 January 2009.

The entity expects to adopt the amendment for the first time in the 2010 financial statements.

It is unlikely that the amendment will have a material impact on the entity's financial statements.

GRAP 4: The Effects of Changes in Foreign Exchange Rates

The initial application of GRAP 4 will have no impact on the financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application on the initial adoption of the Standard except for the acquisition of foreign operations.

The effective date of the standard is for years beginning on or after 01 April 2009.

The entity expects to adopt the for the first time in the 2010 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The entity expects to adopt the standard for the first time in the 2010 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
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GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the financial statements have received approval from management to be issued to the executive authority or municipal council.
Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its financial statements to reflect non adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 April 2009.

The entity expects to adopt the standard for the first time in the 2010 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 17: Property, Plant and Equipment

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP17.

Where an entity acquires an asset through a non exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

The effective date of the standard is for years beginning on or after 01 April 2009.

The entity expects to adopt the standard for the first time in the 2010 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 102: Intangible Assets

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non cash generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state "gains shall not be classified as revenue" as GRAP term "income" has a broader meaning than the term "revenue".

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The entity expects to adopt the standard for the first time in the 2010 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the entity's financial statements is not expected to be material.

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R '000	2008 R'000
3. Trade and other receivables	**81,361**	**81,411**
Government departments	35,303	31,112
Employee costs in advance	13,456	11,636
Prepayments	21,366	18,271
Deposits	2,935	2,934
Advanced Tax Ruling (ATR) debtors	244	230
Staff accounts receivable	1,303	1,649
Other receivables	6,754	15,579

Fair value of trade and other receivables

Trade and other receivables	81,361	81,411

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

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2009, R 18,203,326 (2008: R 14,566,428) were past due but not impaired.

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

1 month past due	16,934	11,920
2 months past due	70	141
3 months past due	1,199	2,505

Trade and other receivables impaired

As at 31 March 2009, trade and other receivables of R 5,079,000 (2008: R 7,079,000) were impaired and provided for.

The amount of the provision was R 5,079,000 as at 31 March 2009 (2008: R 7,079,000).

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

3. Trade and other receivables - continued

	2009 R '000	2008 R'000
The ageing of these loans is as follows:		
Over 6 months	5,079	7,079

Reconciliation of provision for impairment of trade and other receivables

	2009 R '000	2008 R'000
	5,079	**7,079**
Opening balance	7,079	6,695
Provision for impairment	(306)	564
Amounts written off as uncollectable	(1,694)	(180)

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

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

4. Cash and cash equivalents

Cash and cash equivalents consist of:

	2009 R '000	2008 R'000
	981,670	**1,072,516**
Cash on hand	382	386
Bank balances	981,288	1,072,130

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

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

5. Property, plant and equipment

	2009 R'000			2008 R'000		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	39,925	-	39,925	11,945	-	11,945
Buildings	157,974	(13,548)	144,426	168,919	(6,753)	162,166
Plant and equipment	18,231	(4,378)	13,853	-	-	-
Furniture, fittings and office equipment	255,104	(136,988)	118,116	201,409	(103,696)	97,713
Motor vehicles	87,811	(67,281)	20,530	87,436	(69,168)	18,268
Computer equipment	577,183	(344,049)	233,134	483,712	(289,610)	194,102
Leasehold improvements	267,340	(186,779)	80,561	252,612	(144,567)	108,045
Generators	21,831	(174)	21,657	1	(1)	-
Low value assets	-	-	-	4,029	(4,029)	-
Security equipment	18,431	(5,789)	12,642	6,921	(3,798)	3,123
Assets under construction	86,852	-	86,852	15,450	-	15,450
	1,530,682	**(758,986)**	**771,696**	**1,232,434**	**(621,622)**	**610,812**

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

5. Property, plant and equipment - continued

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Disposals	Revaluations	Impairment loss	Depreciation	Total
Land	11,945	-	-	(27,980)	-	-	39,925
Buildings	162,166	-	-	(10,946)	-	(6,794)	144,426
Plant and equipment	-	18,231	-	-	-	(4,378)	13,853
Furniture, fittings and office equipment	97,713	63,126	(448)	-	(6,349)	(35,926)	118,116
Motor vehicles	18,268	4,788	-	-	(146)	(2,380)	20,530
Computer equipment	194,102	132,857	(4,374)	-	(11,194)	(78,257)	233,134
Leasehold improvements	108,045	68,633	-	(53,906)	-	(42,211)	80,561
Generators	-	21,830	-	-	-	(173)	21,657
Security equipment	3,123	12,020	-	-	(510)	(1,991)	12,642
Assets under construction	15,450	71,402	-	-	-	-	86,852
	610,812	**392,887**	**(4,822)**	**(36,872)**	**(18,199)**	**(172,110)**	**771,696**

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Disposals	Impairment loss	Depreciation	Total
Land	11,945	-	-	-	-	11,945
Buildings	165,544	-	-	-	(3,378)	162,166
Furniture, fittings and office equipment	70,756	60,630	(55)	(624)	(32,994)	97,713
Motor vehicles	25,796	3,681	(50)	(298)	(10,861)	18,268
Computer equipment	123,181	140,782	(47)	(4,770)	(65,044)	194,102
Leasehold improvements	156,509	3,228	-	-	(51,692)	108,045
Low value assets	-	(188)	-	-	188	-
Security equipment	2,290	2,048	-	(76)	(1,139)	3,123
Assets under construction	-	15,450	-	-	-	15,450
	556,021	**225,631**	**(152)**	**(5,768)**	**(164,920)**	**610,812**

Assets subject to finance lease (Net carrying amount)

	201,136	**191,239**
Land	39,834	11,514
Buildings	143,065	161,435
Furniture, fittings and office equipment	18,237	18,290

Revaluations

The Fouriesburg properties have been revalued by independent Candidate Valuer A Meyer and Professional Associated Valuer CWA Annandale.

The effective date of the revaluations was 19 March 2009.

The valuation was performed by comparing the properties to similar properties, taking into account the condition of the properties.

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

5. Property, plant and equipment - continued

	2009 R'000	2008 R'000

The Alberton property has been revalued by independent valuer WJ Hewitt (NDPV, C.I.E.A., FIV (SA), Professional valuer, of Mills Fitchet (TVL) cc.

The effective date of the revaluation was 31 March 2009.

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

Discount rate	16%
Capitalisation rate	10%
Period	9 years

These assumptions were based on current market conditions.

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

	2009 R'000	2008 R'000
Land	11,541	11,514
Buildings	154,972	161,760

Effect of revaluations on financial statements

	2009 R'000	2008 R'000
	(65,495)	**-**
Revaluation through surplus/deficit: Buildings	(11,589)	-
Revaluation through surplus/deficit: Leasehold improvements	(53,906)	-
	28,623	**-**
Revaluation through equity: Land	27,980	-
Revaluation through equity: Buildings	643	-

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

6. Intangible assets

	2009			2008		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software	627,844	(340,314)	287,530	461,177	(253,740)	207,437
Intangible assets under development	49,274	-	49,274	-	-	-
	677,118	**(340,314)**	**336,804**	**461,177**	**(253,740)**	**207,437**

Reconciliation of intangible assets - 2009

	Opening Balance	**Additions**	**Disposals**	**Impairment loss**	**Amortisation**	**Total**
Computer software	207,437	191,143	(1,684)	(5,166)	(104,200)	287,530
Intangible assets under development	-	49,274	-	-	-	49,274
	207,437	**240,417**	**(1,684)**	**(5,166)**	**(104,200)**	**336,804**

Reconciliation of intangible assets - 2008

	Opening Balance	**Additions**	**Amortisation**	**Total**
Computer software	43,942	216,827	(53,332)	207,437

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

	2009 R '000	2008 R'000
7. Finance lease obligation		
Land and buildings - Alberton acquisition		
Present value of minimum lease payments	**135,813**	**138,828**
Minimum lease payments due		
- within one year	19,183	17,928
- in second to fifth year	91,135	85,173
- later than five years	110,794	135,940
	221,112	239,041
less: future finance charges	(85,299)	(100,213)
Computer software and hardware		
Present value of minimum lease payments	**-**	**129,443**
Minimum lease payments due		
- within one year	-	72,962
- in second to fifth year	-	72,962
	-	145,924
less: future finance charges	-	(16,481)
Office equipment		
Present value of minimum lease payments	**20,501**	**20,644**
Minimum lease payments due		
- within one year	15,819	14,570
- in second to fifth year	12,052	11,915
	27,871	26,485
less: future finance charges	(7,370)	(5,841)
Included in the financial statements as:		
	156,315	**288,915**
Non-current interest bearing borrowings	16,471	76,741
Current interest bearing borrowings	139,844	212,174

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R '000	2008 R'000

It is entity policy to lease certain property and equipment under finance leases.

Land and buildings - Alberton lease
The Lessor developed the Alberton South Building for SARS at cost of R176,108m.

The finance lease commenced on 2 January 2006 for a twelve (12) year period, at a rental of R1,1m per month (exclusive of VAT); with an annual escalation of 7% (compounded) per annum.

Transfer of ownership and risks takes place at the end of the lease term provided all lease payments have been made.

Land and buildings - Alberton acquisition
This finance lease represents the purchase price for the Alberton South building payable in 3 annual instalments of R 12,54m, R13,69m and R 15,04m with the 1st instalment payable at the commencement of the lease.The last instalment was paid in January 2008.

Computer hardware and software
This finance lease represents the acquisition of computer software and professional services payable in 4 annual instalments of R 61,56m in year one and R 72,96m in years two to four. The last instalment of R72,96m was paid on 31 March 2009.

Office equipment
Certain photocopiers and fax machines were capitalised and the corresponding finance lease liability raised in accordance with IAS 17. The leases are payable in 36 monthly instalments.

8. Trade and other payables

	2009 R '000	2008 R'000
	590,944	**440,961**
Trade accounts payable and accruals	390,576	267,412
Retentions	15	-
Accruals for salary related expenses	200,084	172,434
Other payables	269	1,115

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R '000	2008 R'000
9. Deferred income		
Deferred income comprises:		
Tenant allowances	1,803	8,572
Non-current liabilities	817	1,673
Current liabilities	986	6,899
	1,803	**8,572**

Tenant allowances represent amounts received from landlords for improvements made by the tenant to leased properties.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

10. Provisions

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Total
Leave Pay	44,907	28,296	(5,844)	(1,726)	65,633
Performance bonuses	290,000	290,000	(279,555)	(10,445)	290,000
	334,907	**318,296**	**(285,399)**	**(12,171)**	**355,633**

Reconciliation of provisions - 2008

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Adjustment of provision	Total
Leave Pay	43,342	-	-	-	1,565	44,907
Performance bonuses	234,500	290,000	(229,289)	(5,211)	-	290,000
	277,842	**290,000**	**(229,289)**	**(5,211)**	**1,565**	**334,907**

Performance Bonuses

Performance bonuses represent the obligation for annual performance bonuses payable to employees in terms of performance agreements.

Leave Pay

Leave pay represents the entitlements of amounts due to personnel for leave accumulated prior to 1999.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

	2009 R '000	2008 R'000

11. Financial guarantee contracts

At fair value through profit or loss		
Housing guarantees	5,014	8,499

Housing guarantees are issued in terms of the State Housing Programme to qualifying employees.

Non-current liabilities		
Fair value through profit or loss	5,014	8,499

The fair values of the financial liabilities were determined as follows:

Financial guarantees are initially recognised at fair value. This amount initially recognised is the best estimate of the expenditure required to settle the present obligation.

12. Asset revaluation reserve

Balance at beginning of year	811	819
Movement during the year:	-	-
- Depreciation based in the revalued portion of assets	(8)	(8)
- Reversal of prior periods revaluation	(341)	-
- Current year revaluation	28,964	-
Balance at the end of the year	**29,426**	**811**

13. Capital reserve on establishment

Surplus of assets over liabilities transferred from Government on 1 October 1997	32,364	32,364

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

	2009 R '000	2008 R'000

14. Retirement benefits

Post retirement medical aid benefit

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 and any medical aid.

Defined contribution plan

Obligations for contributions to defined contributions plans are recognised as an expense in the Statement of Financial Performance when they are due. SARS has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee's benefits relating to employee services in the current and prior periods. Retirement benefits are provided by membership of the Government Employees Pension Fund.

Pension fund contribution	224,208	191,111

15. Revenue

National Treasury	6,302,778	5,511,031

16. Other income

	365,679	**332,662**
Commissions received	204,913	186,945
Interest received	139,517	119,779
Other income	20,002	25,938
Funds received from international donors	1,247	-

17. Impairment of assets

	23,365	**5,768**
Property, plant and equipment	18,199	5,768
Intangible assets	5,166	-

Assets impaired generally represents assets that are either obsolete or not physically verifiable. Events and circumstances which have led to assets being scrapped are similar for all asset categories.

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R '000	2008 R'000

18. Operating leases

Building rentals	342,031	284,688

The lease periods range from 2 years to 15 years.
The lease escalation rates vary between 5% and 12% per annum.

19. Finance costs

Finance leases	25,004	30,992

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

21. Auditors' remuneration

	30,203	**29,889**
Current year fees	17,817	18,145
Prior year fees	12,386	11,744

22. Cash generated from operations

	677,799	**621,286**
Surplus before taxation	134,605	228,831
Adjustments for:		
Depreciation and amortisation	276,302	218,252
Deficit (surplus) on sale of assets	5,762	(392)
Impairment deficit	23,365	5,768
Movements in operating lease assets and accruals	8,272	13,454
Movements in provisions	20,726	57,065
Revaluation	65,495	-
Changes in working capital:		
Trade and other receivables	50	6,320
Trade and other payables	149,991	98,575
Deferred income	(6,769)	(6,587)

OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2009

	2009 R '000	2008 R'000
23. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
- Property, plant and equipment	150,696	453,848
Operating leases – as lessee (expense)		
Minimum lease payments due	**2,287,668**	**1,448,773**
- within one year	269,633	196,037
- in second to fifth year inclusive	896,501	682,310
- later than five years	1,121,534	570,426
24. Contingencies		
Contingent liabilities		
Accumulated leave prior to 31 December 1998	27,145	45,245

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

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provision for such accumulated leave has been made and disclosed as part of note 10.

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

25. Related parties

SARS is a Schedule 3A Public Entity in terms of the PFMA. Related parties include other state-owned entities, government departments and all other entities within the spheres of Government.

Related party transactions

The Government provided SARS with a grant to cover its operating expenditure and to fund specific projects. The transactions with related parties are summarised as follows:

With other related parties: Government, major public entities and other related parties

	2009 R '000	2008 R'000
Receiving of Services from related parties		
Airports Company of South Africa	-	549
Department of Foreign Affairs	1,155	1,634
Department of Public Works	1,021	618
Department of Water Affairs and Forestry	-	82
Eskom	4,838	2,915
Government Communications	-	292
Government Printing	905	1,844
Independent Regulatory Board for Auditors	5	15
Local Municipalities	4,474	1,350
National Museum	-	3
National Ports Authority	-	1,168
Pension funds	224,208	191,111
SA Broadcasting Commission	68	3,701
SA Bureau of Standards	187	36
SA Post Office Limited	6,393	7,941
South African Airways	38	34
South African Reserve Bank	-	5
State Attorney	18,824	22,947
Telkom SA Limited	142,569	141,037
Transnet Limited	189	-
Unemployment Insurance Fund	20,396	18,393
Vodacom (as subsidiary of Telkom SA Limited)	13,795	12,775

OWN ACCOUNTS
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for the year ended 31 March 2009

	2009 R '000	2008 R'000
Trade and other payables		
Airports Company of South Africa	-	16
Department of Foreign Affairs	10	201
Department of Public Works	-	54
Eskom	777	336
Government Employee Pension Fund	-	1
Government Printing	2	415
Independent Regulatory Board for Auditors	-	5
Local Municipalities	1,048	137
National Ports Authority	-	108
South African Airways	6	-
State Attorney	1,490	4,210
Telkom SA Limited	17,948	8,589
Transnet Limited	1	-
Vodacom (as a subsidiary of Telkom SA Limited)	1,173	1,129

The transactions with key management personnel are summarised as follows:

Transactions with key management personnel		
Executive members remuneration	33,275	26,975

The transactions by services rendered to related parties are summarised as follows:

Rendering of services		
Department of Housing (services)	60	120
National Treasury (Grant and CARA)	6,302,778	5,511,031
Public Investment Corporation (Services)	624	1,579
SARS Administered Revenue (attendance fees Customs)	6,436	7,216
Skills Development Levy (Commission earned)	53,460	52,569
Unemployment Insurance Fund (Commission earned)	151,453	134,376
Trade and other receivables		
SARS Administered Revenue (attendance fees Customs)	-	570
Department of Housing (Services)	120	120
Public Investment Corporation (Services)	609	2,023
Skills Development Levies (Commissions earned)	8,710	4,490
Unemployment Insurance Fund (Commissions earned)	25,864	23,909

OWN ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

25. Related parties - continued

Terms and conditions of transactions with related parties

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. No provision for doubtful debt relating to outstanding balances has been made and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

26. Executive members remuneration

Executive Managers (past and present) emoluments

	Salary R'000	Bonus R'000	Allowances including Leave Payments R'000	Contributions Medical & Pension R'000	2009 Total R'000	2008 Total R'000
Commissioner for SARS	2,378	900	215	337	3,830	3,251
Chief Officer: Modernisation & Technology / GM: Strategy, Modernisation and Technology	2,055	788	185	43	3,071	2,692
Chief Officer: Strategic Services / Chief Operating Officer	1,781	642	218	38	2,679	2,400
Chief Officer: Business Enabling & Delivery Services / GM: Corporate Services	1,654	692	431	41	2,818	2,411
Chief Officer: Legal & Policy / GM: Legal and Policy	1,328	597	290	197	2,412	2,014
Chief Officer: Enforcement & Risk / GM: Enforcement and Risk	1,248	565	253	188	2,254	1,887
Chief Officer: Customs & Border Management	926	328	204	31	1,489	-
Chief Financial Officer (3 months)	461	-	42	10	513	-
Group Executive: Large Business Centre / GM: Large Business Centre (2009:10 months)	1,361	510	343	32	2,246	1,967
Acting Group Executive: Large Business Centre (2009:2 months)	206	-	33	6	245	-
Group Executive: Taxpayer Services	1,048	393	232	33	1,706	-
Group Executive: Segmentation & Research / GM: Risk Management	1,195	225	170	34	1,624	1,437
Group Executive: Reputation Management / GM: Corporate Relations	1,084	325	170	33	1,612	1,425
Group Executive: Human Resource Management (2009:4 months)	586	-	58	13	657	-
Group Executive: Institutional Enablement and Integrity (2009:3 months)	189	-	51	33	273	-
Chief Information Officer (2009: 7 months, 2008: 6 months))	1,002	208	97	23	1,330	840
GM: Finance (2009: 7 months)	518	258	114	77	967	1,311
GM: Enforcement (2009: 7 months)	484	243	104	17	848	1,206
Deputy Chief Operating Officer (2009: 5 months)	474	296	255	16	1,041	1,476
GM: Officer of the Commissioner (2009: 7 months)	465	349	130	71	1,015	1,278
GM: Operational Policy & Performance Management, previously Deputy Chief Operating Officer (2009: 2 months)	222	214	184	25	645	1,380
	20,665	**7,533**	**3,779**	**1,298**	**33,275**	**26,975**

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27. Change in estimate

Property, plant and equipment

The useful life of all buildings was estimated at the date of purchase to be 50 years. In the current period management have revised their estimate to a range from 15 to 50 years applicable to the different components of the building. The effect of this revision has increased the depreciation charges for the current period by R 3,417,728.

Leave pay provision

The leave pay provision for leave prior to 1 January 1999 was calculated based on the estimated percentages of probability applied to the various age groups, in the current period, management have revised the estimate of percentages of probability.

	Current estimate	Prior estimate
25 years to 35 years	37.34%	10%
36 years to 45 years	49.89%	25%
46 years to 54 years	79.05%	50%
55 years and older	96.80%	100%

The effect of this revision has increased the provision for the current and future periods by R 18,354,557.

28. Risk management

Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. SARS manages its liquidity risk to ensure it is able to meet estimated expenditure requirements. This is achieved through prudent liquidity risk management which includes maintaining sufficient cash and cash equivalents.

SARS' chief source of income is an annual grant from Parliament for funding of SARS' operational and capital requirements. This grant is allocated in accordance with the provisions governing the Medium Term Expenditure Framework (MTEF). SARS follows an extensive planning and governance process to determine its operational and capital requirements. This is considered to be adequate mitigation of liquidity risk.

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for the year ended 31 March 2009

28. Risk management - continued

At 31 March 2009	1 Year	2 - 5 years	Beyond 5 years	Total
	R'000	**R'000**	**R'000**	**R'000**
Interest bearing borrowings	16,471	49,934	89,910	156,315
Financial guarantee contracts	-	-	5,014	5,014
Trade and other payables	590,943	-	-	590,943
At 31 March 2008	**1 Year**	**2 - 5 years**	**Beyond 5 years**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
Interest bearing borrowings	76,741	107,837	104,337	288,915
Financial guarantee contracts	-	-	8,499	8,499
Trade and other payables	440,961	-	-	440,961

Interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis. The debt of the entity is structured on a combination of floating and fixed interest rates. The benefits of fixing or capping interest rates on the entity's various financing activities are considered on a case-by-case and project-by-project basis, taking the specific and overall risk profile into consideration.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. SARS is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments.

- The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party;
- Staff debts are recovered in terms of applicable policy and procedures directly from the employee's salary and/or pension;
- Debts for Government Departments are recovered in accordance with terms dictated by the PFMA;
- Housing guarantees are recovered from the employee's salary and/or pension.

SARS does not regard there to be any concentration of credit risk.

Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. SARS' operations utilise various foreign currencies and consequently, are exposed to exchange rate fluctuations that have an impact on cash flows and financing activities. Foreign exchange risks are managed through the entity's financing policies and the use of forward exchange contracts.

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	2009 R '000	2008 R'000

29. Donations

Particulars of each donation or bequest accepted by SARS must be disclosed in accordance with section 24 2 (b) of the South African Revenue Service Act (Act No. 34 of 1997):

	2009 R '000	2008 R'000
1) AKMAL - Royal Malaysian Customs Academy	373	-
Travelling and accommodation in Malaysia for customs training programmes		
2) STA - Swedish Tax Agency	280	-
Travelling and accommodation in Sweden for capacity building and benchmarking study visit in the areas of operations Policy and Standards and performance management and in support of the working agreement between SARS and STA		
3) CSI - Container Security Initiative	180	40
Travelling and accommodation to USA for attendance of global targeting assembly of technical experts symposium		
4) SADC - Southern African Development Community	158	15
Travelling, subsistence allowance and accommodation in Gaborone, Botswana for attendance of SADC subcommittee meetings, other working group meetings and training workshops		
5) AusAID - Australian Agency for International Development	95	-
Travelling and accommodation in Jakarta, Indonesia for visit to Directorate General of Taxation, Ministry of Finance, Republic of Indonesia		
6) INTA - International Trademark Association	46	-
Travelling and accommodation in Maputo for attendance of the Mozambique customs training seminar on counterfeit goods		
7) ATAF - African Tax Administration Forum	45	-
Travelling and accommodation in Fes, Morocco for attendance of OECD's annual committee meeting of the advisory group for co-operation with non-OECD economies		
8) ILEA - International Law Enforcement Academy	42	85
Accommodation and airfares in Botswana for attendance of airport interdiction course (2008: Course on Law Enforcement Executive Development Program)		
9) SACU - South African Customs Union	42	-
Travelling and accommodation in Namibia for workshops on the capacity building initiative, the one stop border initiative, the single administrative document initiative and the joint border controls initiative		
10) NTA - National Tax Agency of Japan	42	37
Travelling and accommodation to Tokyo, Japan to present lectures at the ISTAX		

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

29. Donations - continued

	2009 R '000	2008 R'000
11) InWEnt - Capacity Building International, Germany Accommodation in Dar es Salaam, Tanzania for attendance of the follow-up seminar on regional integration in SADC and EAC	41	-
12) UN - United Nations Travelling and accommodation in Geneva, Switzerland for attendance of meeting of UN Committee of Experts on International Cooperation in Tax Matters	30	55
13) The UK Department for International Development (DFID), through the Regional Trade Facilitation Programme (RTFP) Travelling, subsistence allowance and accommodation in Maputo, Mozambique for attendance of the one stop border post working session	24	-
14) AU - African Union Travelling to Addis Ababa, Ethiopia for attendance of workshop of the AU Customs Technical Working Group Workshops	15	18
15) LRA - Lesotho Revenue Authority Travelling and accommodation to Maseru, Lesotho for attendance of the LRA Tax Treaty Workshop	10	-
16) SAGCH - The Southern African Global Competitiveness Hub Accommodation and travelling costs to Gaborone, Botswana for participation in the customs to business forum	8	-
17) Dutch Government Assistance with training under the RTC Programme	-	862
18) US CBP - United States Customs and Border Protection Assistance with the implementation of the Framework of Standards	-	735
19) The Commonwealth Secretariat Travelling and accommodation in Belgium for attendance of World Customs Organisation 46th Fellowship Programme	-	190
20) Japan Customs and Tariff Bureau Accommodation and airfares for seminar in Japan	-	62
21) USDOJ - US Department of Justice Accommodation and travelling to Nigeria for participation as trainers in the Intellectual Property Rights Enforcement Conference	-	60
22) US Department of Energy Accommodation and travelling to Argentina for attendance of the Commodity Identification Training Seminar	-	48
23) IAGR - International Association of Gambling Regulators Accommodation and airfares to Chicago, USA for attendance of the IAGR Conference	-	45

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	2009 R '000	2008 R'000
24) World Bank	-	31
Travelling and accommodation in Nairobi, Kenya for attendance of World Bank Training Programme of Evaluators Anti-Money Laundering and Combating the Financing of Terrorism		
25) Malaysian Government	-	31
Accommodation in Malaysia for workshop on Taxation International of Transactions		
26) The Ministry of Commerce of China	-	30
Accommodation and travelling to China for the attendance of the seminar on Customs Management for African Officials		
27) RRA - Rwanda Revenue Authority	-	21
Airfares and accommodation in Rwanda for attendance of Workshop on Interpretation and Application on tax treaties with RRA		
28) SAAB Technologies	-	9
Accommodation and travelling to Sweden for the SAAB's 70th Anniversary		
29) ESAAMLG - Eastern and Southern Africa Anti-Money Laundering Group	-	7
Accommodation and travelling to Botswana for a Working Group session in ESAAMLG meetings		
Total	**1,431**	**2,381**

Amounts have been converted at exchange rates ruling at the time of the transaction.

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30. Prior period adjustments

Property, plant and equipment was understated in the prior year due to additions that were expensed.

Property, plant and equipment was also understated due to the fact that low value assets have been depreciated in full and the useful lifes were not appropriately considered.

Trade and other payables were understated due to expenses that were not accrued for.

	2008 R '000	2007 R'000
The correction of the errors results in adjustments as follows:		
Statement of financial position		
Property, plant and equipment	(2,715)	22,394
Trade and other receivables	2,305	-
Trade and other payables	(6,939)	(220)
Accumulated surplus	7,349	(22,174)
Statement of financial performance		
Administrative expenses	3,659	-
Depreciation	6,728	-
Professional and special services	(3,038)	-

GLOSSARY

AEO	Accredited Economic Operator
BFE	Branch Front End
BOE	Bill Of Entry
CBCU	Customs Border Control Unit
CIT	Corporate Income Tax
e-filing	Electronic filing of returns via the Web
GRAP	Generally Recognised Accounting Principles
GRC	Governance, Risk and Compliance
HNWI	High Net Worth Individual
IBSA	India, Brazil, South Africa
ICT	Information and Communication Technology
IVR	Integrated Voice Response
MTEF	Medium Term Expenditure Framework
PAYE	Pay As You Earn
PIT	Personal Income Tax
NGO	Non Governmental Organisation
PBO	Public Benefit Organisation
LBC	Large Business Centre
OECD	Organisation for Economic Cooperation and Development
SAFE	Framework of Standards to Secure and Facilitate the International Supply Chain
SARS	South African Revenue Service
STC	Secondary Tax on Companies
UTTM	Universal Taxpayer, Trader and Traveller Master
VAT	Value Added Tax
WCO	World Customs Organisation
BAU	Business As Usual
II	Inpactful Improvements
MA	Modernisation Agenda
RBT	Residence Based Taxation
RFT	Tax on Retirement Funds

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