

# ANNUAL REPORT



## Annual Report 2017/18



**SARS**

South African Revenue Service

# Annual Report 2017/18

South African Revenue Service

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# GENERAL INFORMATION

## PART ONE



## MESSAGE FROM THE MINISTER OF FINANCE



The South African Revenue Service (SARS), as the collector of more than 90% of government's revenue, remains a key enabler of the National Development Plan. Moreover, revenue collection performance is an important dimension in managing perceptions of ratings agencies.

Revenue collection fell short of the Printed Estimate for the 2017/18 financial year by almost R50 billion and consequently, led to the difficult decision to raise the VAT rate to 15%, which was announced during the Budget Speech in February 2018.

Concerns raised by the Office of the Tax Ombud regarding the undue delay in the payment of refunds were noted, together with negative sentiments expressed by the tax community. Subsequently, the President appointed a Commission of Inquiry into tax administration and governance by SARS.

Despite some challenges and a difficult collection climate, I salute the loyal SARS staff members for their achievements over the past financial year, which include collections that still outgrew the growth of the economy and a Tax-to-GDP extraction rate exceeding 25%.

SARS remains an example of an institution that continues to do more with less, which is very important in the context of the tight fiscal framework we find ourselves in. SARS sustained the downward management of costs reflected in their cost-to-revenue ratio, enabled by the investment in modernisation and underpinned by prudent financial management as well as diligent enterprise-wide capacity management.

A continued increase in the use of digital channels is encouraging, as enabled by SARS's robust ICT platforms, and achieved more than 99% uptime over the past couple of years.

Equally encouraging is that SARS was able to institutionalise the successful delivery of programmes. These include the annual filing seasons, implementing the Health Promotion Levy, the delivery of the OECD's Common Reporting Standard, the initial phase of the New Customs Acts Programme, as well as the progress being made on the Special Voluntary Disclosure Programme.

Continued participation in national and global events that enable SARS to better understand the expectations of stakeholders, as well as to gauge the organisation's capabilities against peers around the world, are of paramount importance. SARS's participation in the events such as the Tax Indaba, Customs stakeholder forum and initiatives co-ordinated by institutions such as the World Bank, World Customs Organisation, as well as the Organisation for Economic Cooperation and Development are of paramount importance to ensure that SARS delivers services and products on par with the most progressive tax and customs authorities and advances fiscal citizenship.

I congratulate all SARS employees on their performance and express my sincere appreciation to compliant taxpayers, traders and intermediaries for their contribution to make South Africa great.

A handwritten signature in black ink, appearing to read 'Nene', written over a horizontal line.

Mr N Nene, MP  
MINISTER OF FINANCE



I was profoundly humbled by my appointment as Acting SARS Commissioner on 19 March 2018, and the enormous responsibility bestowed upon me.

The year under review had many highlights, despite its difficulties.

The 2017/18 total tax revenue estimate was set at R1 265.5 billion in the February 2017 Budget (Printed Estimate). The estimate was revised to R1 217.3 billion in the February 2018 Budget (Revised Estimate), based on the deteriorating economic conditions.

Collections for the 2017/18 financial year amounted to R1 216.5 billion, which is R843 million or less than 1% below the revised target of R1 217.3 billion. Albeit slightly short of expectations, it was still R72.4 billion or 6.3% more than the previous year and significantly higher than the GDP growth.

We have made significant strides in terms of building our data analytics capability, with specific reference to revenue data products over the past year and will be in a much better position to participate in the crafting of revenue collection estimates, as well as the associated expectation management going forward.

Tax season plays a fundamental role in deepening the culture of tax compliance. It gives us an opportunity to engender the culture of tax compliance and educate taxpayers about their tax obligations. At the close of the tax season on 24 November 2017, SARS had received 5.6 million returns for non-provisional taxpayers comprising of 4.289 million returns by individuals for the 2016/17 tax year and 1.2 million returns in respect of prior years. In so far as the processing of non-provisional taxpayer returns is concerned, 93.63% of these returns were processed within 24 hours and 91.98% of taxpayers due for a refund, not routed for audit or risk verification, received their refund in less than 72 hours. Furthermore, refunds to the value of R18.5 billion were paid to 2.22 million non-provisional taxpayers, while fraudulent claims to the value of R2.7 billion were prevented.

SARS needs to replicate the compliance of non-provisional taxpayers to other tax types. This includes compliance of excise duties in respect of various products, as well as the broader illicit economy. The struggle to clean up our register continues, and this clouds our ability to accurately determine and report on compliance, and SARS has striven to be as accurate as possible in reflecting the extent of compliance in this report. While we are seeing a decline in compliance in certain sectors, I am gratified that the Large Business client administrative compliance, in respect of the submission of returns and payment, is high, being above 90% across the main tax types - CIT, PAYE and VAT.

Other areas indicating room for improvement include basic operational management, the sheer size of the debt book, the number of outstanding returns and other work-in-progress items, as well as the number of complaints and our ability to resolve them timeously. These, together with the levels of service at our Ports of Entry, need special focus, and I trust our commitment to the Service Charter will keep us accountable to improvements going forward. We have also concluded several in-depth analyses ranging from operating model efficiency and focus, to productivity and capacity models, to help us reposition ourselves for improved performance.

SARS has also continued to participate internationally through various activities – multilaterally, regionally and bilaterally. In the area of multilateral taxation, SARS continued to participate in the work of the Organisation for Economic Cooperation and Development's (OECD) Committee on Fiscal Affairs (CFA), its various working parties, as well as the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and Forum on Tax Administration (FTA).

SARS is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), the premier international body for ensuring the implementation of the internationally agreed standards



## COMMISSIONER'S OVERVIEW

of transparency and exchange of information in the tax area. South Africa participated as an early adopter of the new international Common Reporting Standard (CRS) for Automatic Exchange of Information (AEOI), building on the experience gained from the implementation of AEOI for the Foreign Account Tax Compliance Act (FATCA).

SARS actively participated in the BRICS Tax and Customs meetings convened under the chairmanship of China. Highlights included the signing of the BRICS Memorandum of Cooperation in Respect of Tax Matters and Strategic Framework of BRICS Customs Cooperation. Both these instruments will deepen co-operation between BRICS countries.

In support of South Africa's foreign policy objectives, SARS continued to actively support programmes of skills development, knowledge sharing and capacity building. SARS's capacity building programmes included hosting 18 incoming benchmarking visits of 93 officials from 12 countries to South Africa. These engagements focused on areas such as performance management, VAT, taxation of the mining sector, risk management, data warehousing, high net worth individuals, voluntary disclosure, innovation management, digital and forensic audits, eCommerce, human resource management, customs centralised processing, tax court, alternative dispute resolution and revenue tracking.

SARS continued to advance and support issues on the international customs agenda, which seek to enhance Customs administration globally, leverage relations to support the development of SARS's internal capabilities and facilitate the exchange of Customs information on request under international instruments. SARS continued to participate in the work of the World Customs Organization (WCO) and WCO East and Southern Africa (WCO ESA).

In the pages that follow, you will come to learn more about the other activities undertaken by SARS in the year under review. In some we have achieved success, while in others there is much work to be done. Be assured that our focus is to continuously improve our organisation, to concentrate primarily on those who utilise our services, in particular, strengthening our relationship with taxpayers and traders, including travellers through our borders, and to be more responsive to the needs and expectations of all our stakeholders and then to determine if there is satisfaction with our efforts.

It is important to restore trust in both our private and public sector institutions if we are to encourage investment in the country. The veracity of the local accounting and auditing professions must be evident if we are to attract and sustain investor confidence. As we know, President Ramaphosa has made it his mission through his "investment lions and lioness" to bring back to South Africa substantial foreign investment.

SARS is built on the energy and drive of its people. The ability to sustain increased collection in a difficult economic climate and process more volumes, whilst reducing headcount and cost, is testament to the passion of our staff. Whilst SARS has gone through some pain in the recent past, I am convinced we remain a solid institution. This time of transition provides us with an opportunity for examination and consideration of the areas where we can improve our performance so we are better able to serve our stakeholders.

The diligent oversight and valuable feedback we receive from our external lines of assurance, with specific reference to the Auditor General, the SARS Audit and Risk Committee, the Office of the Tax Ombud, as well as the various Parliamentary Committees are duly acknowledged.

In conclusion, I express my sincere gratitude to the Ministry of Finance as well as the leadership of National Treasury for their support.



Mark Kingon  
ACTING SARS COMMISSIONER



## Statement of Responsibility and Confirmation of Accuracy of the Annual Report

To the best of my knowledge, I confirm the following:

All information and amounts disclosed in the Annual Report are consistent with the Annual Financial Statements audited by the Auditor-General. The Annual Report is complete, accurate and free from any omissions. The Annual Report has been prepared in accordance with the Annual Report guidelines issued by the National Treasury.

The Annual Financial Statements included in this Annual Report were prepared in accordance with the applicable accounting standards. The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The Accounting Authority is responsible for establishing and implementing a system of internal control that has been designed to provide assurance as to the integrity and reliability of the performance information, the Human Resource information and the Annual Financial Statements.

The Auditor-General is engaged to express an independent opinion on the Annual Financial Statements.

In my opinion, the Annual Report fairly reflects the operations, the performance information, the Human Resource information and financial affairs of SARS for the financial year ended 31 March 2018.

Mark Kingon  
ACTING SARS COMMISSIONER





## About This Report

In accordance with Government's performance monitoring methodology, SARS has aligned this report with its Strategic Plan 2016/17 to 2020/21, as well as its Annual Performance Plan 2017/18

Progress is measured against SARS's strategic outcomes for the period under review:

Increased customs and excise compliance

Increased tax compliance

Increased ease and fairness of doing business with SARS

Increased cost effectiveness and internal efficiencies

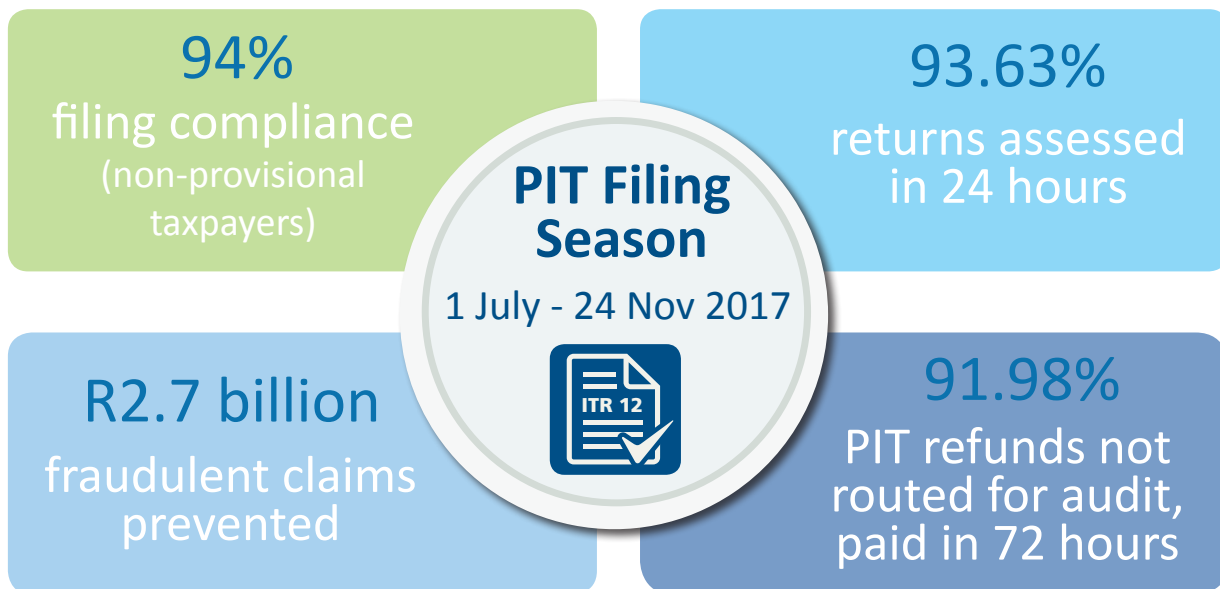
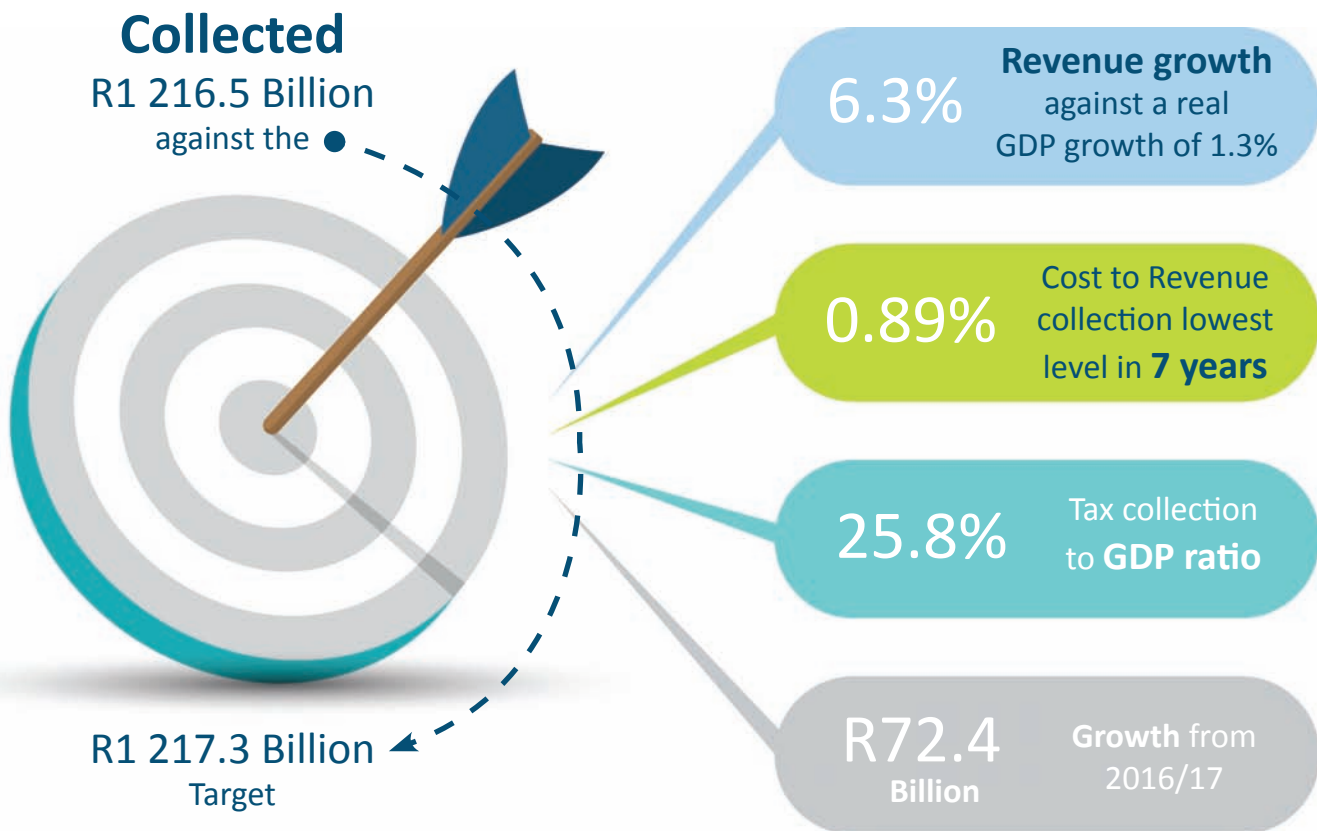
Increased public trust and credibility

**As part of SARS's commitment to align the organisation with the King Report for Corporate Governance it continues on its journey to inculcate the principles of Integrated Thinking and Integrated Reporting to promote a more cohesive approach to reporting, that considers a broad range of reporting dimensions and communicates all relevant factors that materially affect the ability of SARS to create value over time.**

This report comprises five distinct parts:



## Performance Highlights





## Who we are

### OUR MANDATE

“To collect all revenues due, ensure optimal compliance with tax and customs legislation and provide a customs and excise service that will facilitate legitimate trade, as well as protect our economy and society”.

### OUR VISION

“To administer our Tax, Customs and Excise duties in a manner that encourages fiscal citizenship and increased revenue for the State”.

### OUR MISSION

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

### OUR PEOPLE

“SARS recognises that its people are an indispensable driver of performance and hold the key to the organisation’s ability to operate efficiently and effectively. Our people philosophy is characterised by care and concern, employee growth, recognition for excellence and engagement”

### OUR VALUES

#### Integrity

Guided by values and having an ability to demonstrate moral judgement and doing the right thing consistently

#### Fairness

Just and reasonable treatment in accordance with acceptable rules and free from favouritism and bias

#### Accountability

Assuming responsibility for actions, products, decisions and policies within the scope of employment position

#### Respect

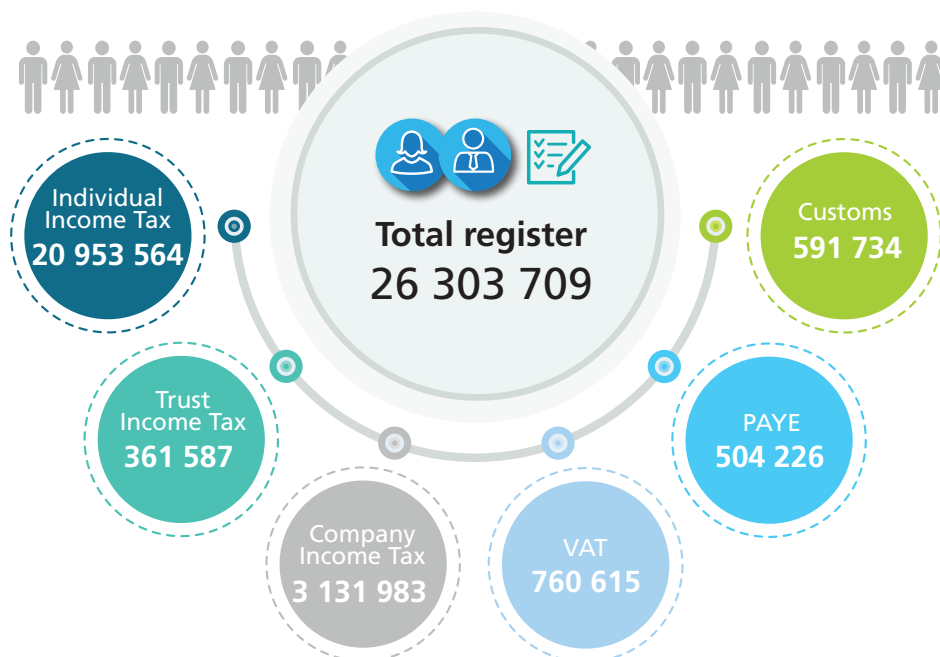
The ability to be considerate towards others

#### Transparency

Full, accurate and timely disclosure of information or a clear, unhindered honesty in the way SARS does business

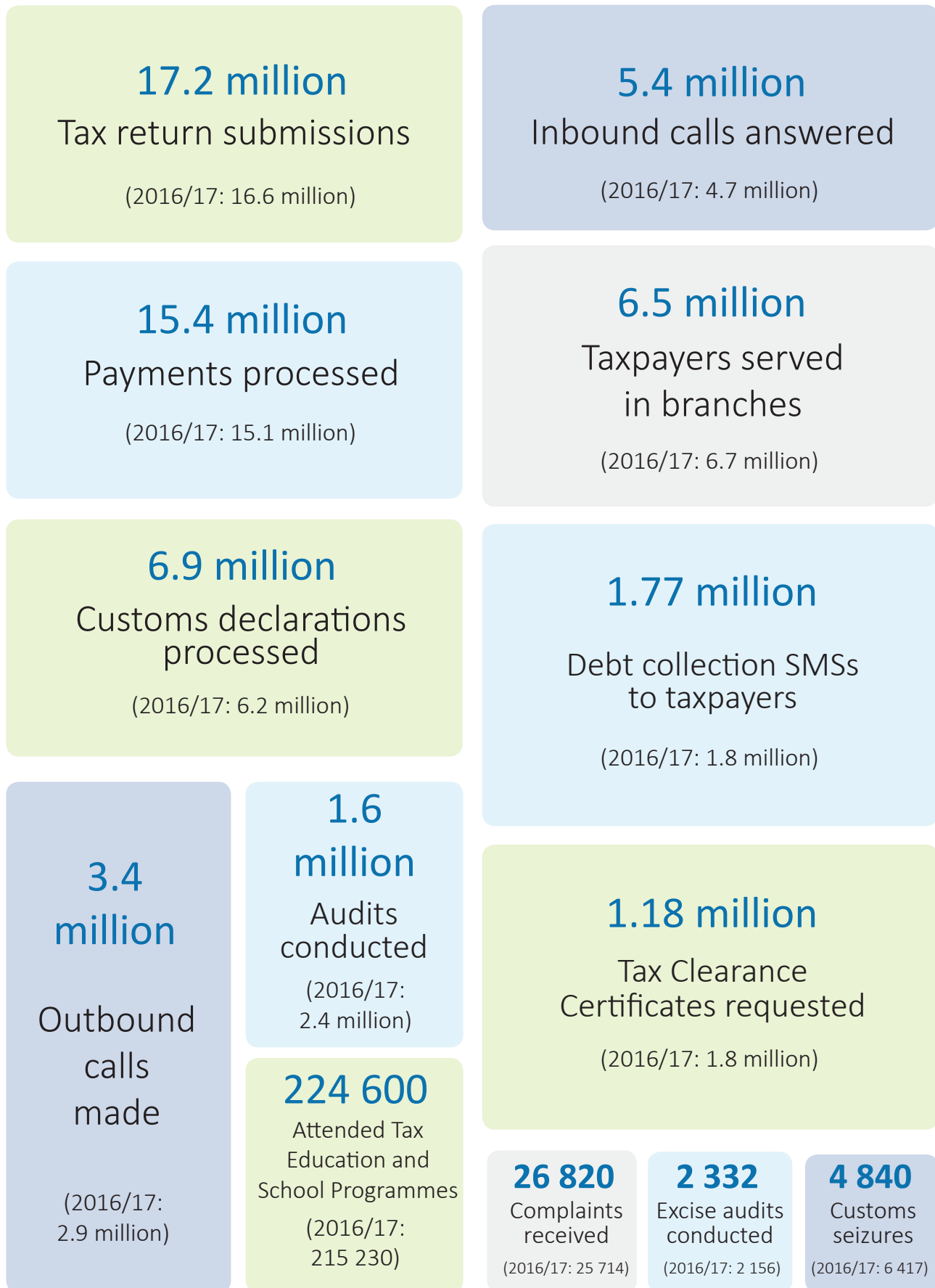
#### Trust

Firm belief in the reliability, truth or ability of someone or something





## The Volumes We Processed



## Key aspects that inform our Business Model

1

Enabling **wealth creation** in South Africa whilst contributing to the **National Development Plan**

2

Our **strategic focus** directs internal capabilities to leverage our **opportunities** and strengths, whilst mitigating risks

3

**Legislative**, Policy, Principles and Standards **framework** that defines the parameters in which we work



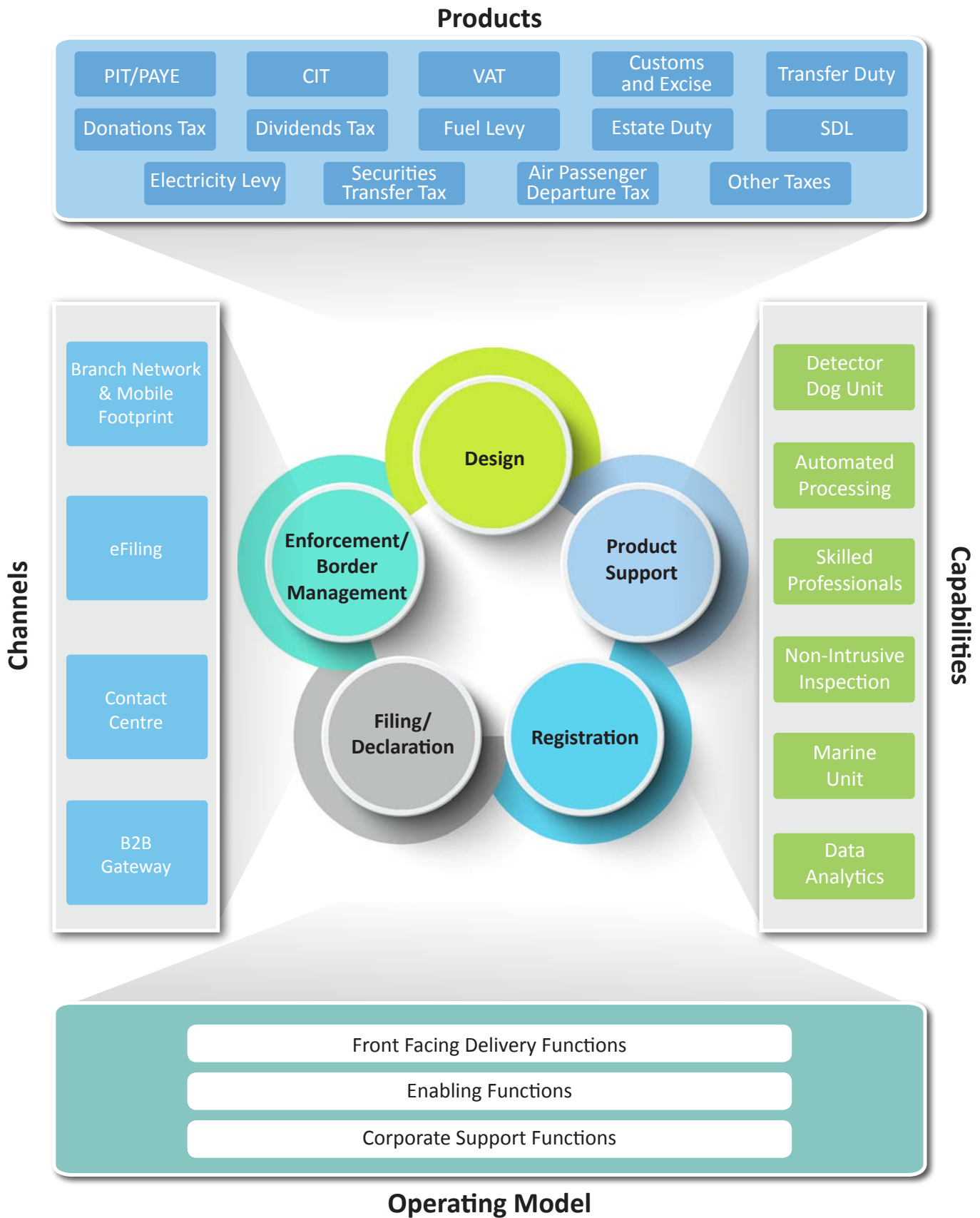
Strong **stakeholder relationships** and **partnerships** assist to create value

4

**Internal capabilities** are organised to deliver **products** and services through a **variety of channels**

5

# Our Integrated Business Model



## Legislative, Policy Principles and Standards Framework

Our mandate is derived from the **SARS Act**

### Policy Makers



### Standards



### Principles of a good TAX SYSTEM

- Efficiency
- Equity
- Simplicity
- Transparency & Certainty
- Tax Buoyancy

### WCO Framework of Standards

- Utilising advanced electronic manifest information to allow risk assessment
- Using a common risk management approach
- Using non-intrusive detection equipment to conduct examinations
- Enabling the accrual of benefits to nations, Customs and business conforming to standards

### SARS administers various ACTS

- Tax Administration Act, 2011
- Transfer Duty Act, 1949
- Estate Duty Act, 1955
- Income Tax Act, 1962
- Customs and Excise Act, 1964
- Value-Added Tax Act, 1991
- Skills Development Levies Act, 1999
- Unemployment Insurance Contributions Act, 2002
- Securities Transfer Tax and Administration Acts, 2007
- Diamond Export Levy and Administration Acts, 2007
- Mineral and Petroleum Resources Royalty and Administration Acts, 2008
- Employment Tax Incentive Act, 2013
- Merchant Shipping (International Oil Pollution Compensation Fund) Contributions & Administration Acts, 2013

### OECD

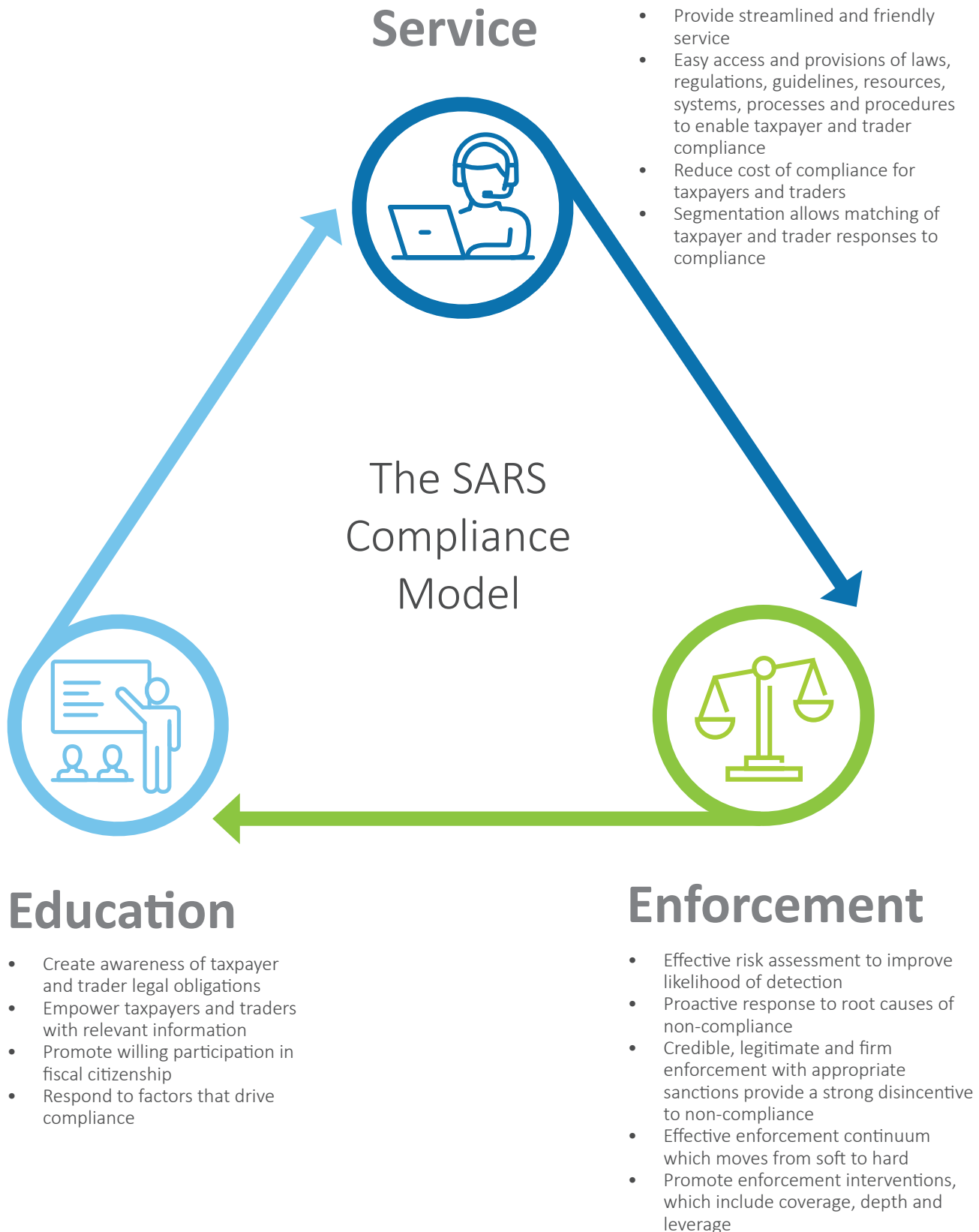
- Designed Common Reporting Standard (CRS) for countries and tax authorities globally
- SARS, as an early adopter, committed to Automatic Exchange of Information (AEOI)

### GOVERNANCE & OVERSIGHT

- Standing Committee on Finance
- Executive Committee
- Audit and Risk Committee
- Ministry of Finance
- Office of the Auditor-General
- Office of the Public Protector
- Office of the Tax Ombud



## SARS Balances Three Levers to Execute its Mandate



## Key Stakeholders - Organised into **8 distinct segments**



### Intermediaries

- Tax Practitioners
- Trade Intermediaries
- Employers as agents

### Individuals

- Complex
- Standard
- Below threshold

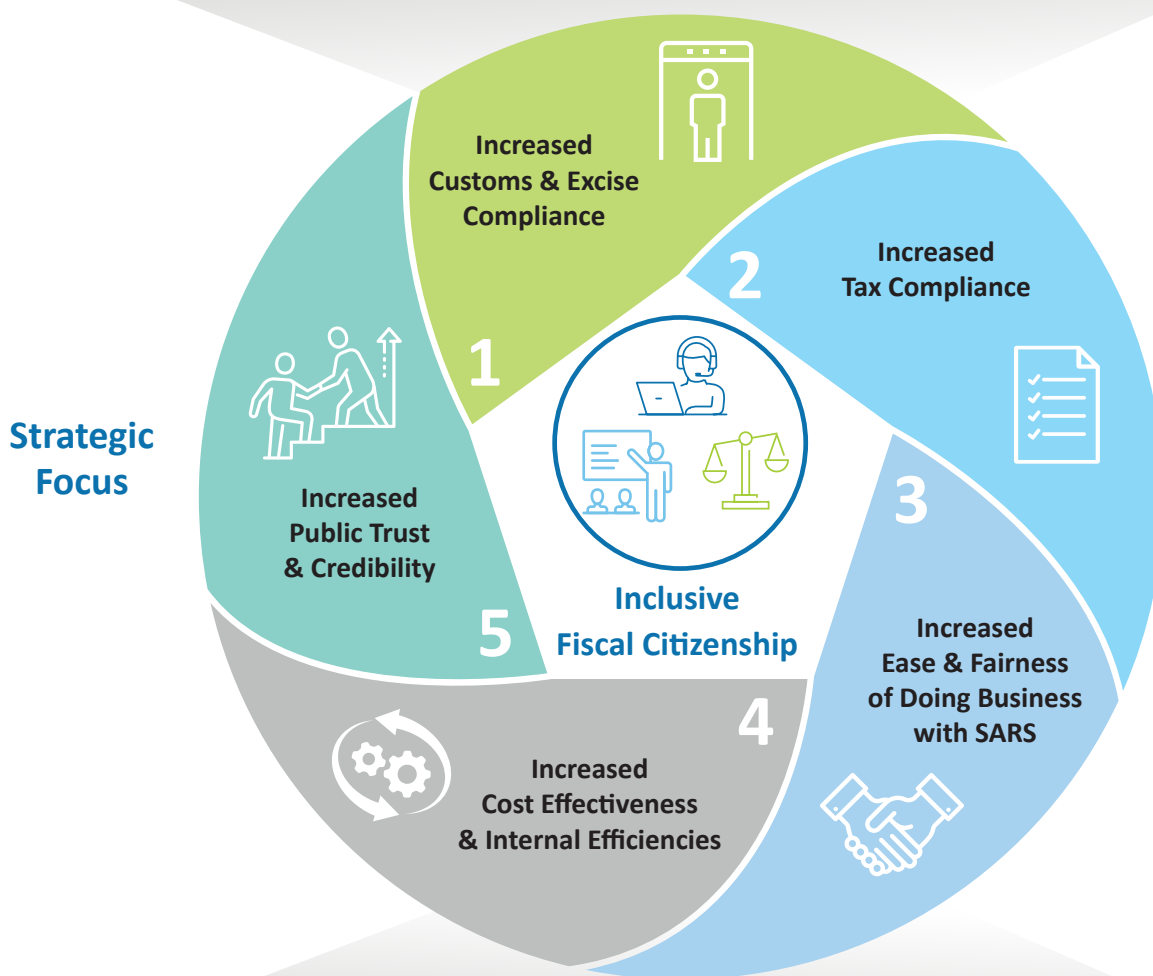
### Business & SOEs

- Large
- Medium
- Micro & Small

## Positioning our Strategic Framework

### Opportunities

- Broader tax base to pursue and a tax gap to close
- New channels to augment SARS's physical footprint
- Unlocking the full potential and development of our staff
- Elevated focus on capacity management will enable optimised resource allocation
- Enable data analytics capability to introduce improved business insight
- Leverage benefits from introducing 3rd party data sources
- Create new channels of innovative, targeted and improved taxpayer education
- Innovation, automation and digital channel uptake
- Continued participation in global initiatives, forums and events



### Risks

- Cyber security threat
- Loss of public trust and credibility
- Illicit trade and smuggling
- Increasing non-compliance by taxpayers and traders
- Business interruption
- Loss and leakage of data and information



## SARS Executive Committee

**Mark Kingon**  
Acting Commissioner



**Fabian Murray**  
Acting CO: Business  
and Individual Taxes



**Teboho Mokoena**  
CO: Customs and Excise



**Mogola Makola**  
CO: Enforcement



**Mmamathe  
Makhekhe-Mokhuane**  
CO: Digital information  
Services and Technology



**Luther Lebelo**  
Acting CO: Human Capital  
and Development



**Hlengani Mathebula**  
CO: Governance, International  
Relations, Strategy  
and Communications



**Johnstone Makhubu**  
Acting CO: Finance



**Refiloe Mokoena**  
CO: Legal Counsel

## SARS Executive Committee



**Mark Kingon**  
Acting Commissioner

Mark Kingon was appointed as the Acting Commissioner for SARS on Monday 19 March 2018. He has been at SARS for 34 years in a long and varied career that started in January 1984. He started his career with basic cash hall functions, Salary Assessing, Business Assessing, Trusts and other specialised business assessing. Later he was involved in Law Interpretation. During a stint in Legal Counsel (Law Administration as it then was) Mark was involved in Payroll Taxes, not-for-profit entities and Capital Gains Tax.

Mark also served a year on the secretariat with the Tax Advisory Commission to the Minister of Finance. The commission was chaired by Professor Michael Katz. As a member of a sub-committee of the Katz Commission dealing with the Non Profit Sector, there were key changes in tax legislation and the introduction of a legal framework for Public Benefit Organisations. In 2003 he was closely involved in a Foreign Exchange and related tax amnesty. Mark then became an Assistant General Manager responsible for legal support to our Enforcement operations.

In 2007 he was involved in SARS modernisation initiatives which saw the introduction of electronic platforms for submissions and payments to SARS, particularly the platform called eFiling. At the time of his appointment as Acting Commissioner, Mark was the Group Executive: Relationship Management in the division called Business and Individual Taxes (BAIT).

Mark has a Bachelor's Degree in Administration from the University of South Africa (UNISA).



**Teboho Mokoena**  
Chief Officer: Customs and Excise

Teboho Mokoena started his career at SARS in 1996 as a Salary Administrator. He went on to grow within the ranks within the organisation. He occupied the following positions within SARS: Organisational Development Practitioner, Regional Organisational Development Manager: Free State and North-West Region, Human Resources Manager: Siyakha Project, Regional Human Resources Manager: KwaZulu, Natal and Eastern Cape, Senior Human Resources Manager: Gauteng and Senior Manager: Enforcement Division.

Teboho has also worked at the South African Airways (SAA). During his tenure at the national carrier, he was engaged in the following roles: Executive Human Resources Manager - Commercial, Executive Human Resources Manager - Sourcing, Workforce Planning and Human Resource Business Partner and Executive Human Resources Manager - Republic of South African Airport Operations and Global Operations.

It was also whilst employed at SAA that Teboho had the opportunity to branch into the operations sphere when he was given the opportunity to manage SAA airport operations as an Airport Manager at East London and King Shaka International Airports respectively. Before re-joining SARS, he was the Chief Deputy Commissioner (Deputy Director-General): Human Resource Management at the Department of Correctional Services.

Teboho obtained the following qualifications: B Juris degree at the Faculty of Law at the University of Johannesburg, Certificate in Organisational Development, Diploma in Human Resource Management, Management Advancement Programme, Leadership Development Programme and a Post Graduate Diploma in Executive Leadership.



**Mmamathe Makhekhe-Mokhuane**  
Chief Officer: Digital Information Services and Technology

Mmamathe Makhekhe-Mokhuane joined SARS in May 2017 in the capacity of Chief Officer for Digital Information Systems and Technology (DIST). She served the South African Public Service as a Government Information Technology Officer/Chief Information Officer in different Departments since 1992. She served at the North West Consumer Council, North West Parks and Tourism (Institute of Hotel and Tourism Management), North West Provincial Government (Department of Finance and Office of the Premier), National Department of Transport, Department of Communications (now Telecommunications and Postal Services) and the Department of Water and Sanitation.

She was appointed as a board member for the State Information Technology Agency (SITA) from 2008 – 2011 while also chairing the Government Information Technology Officer's Council (GITOC). She also served in the Governance and Administration, Economic Development, Information Society and Development (ISAD IGR) Clusters.

Nominations: 2004 – Top Public Sector Chief Information Officer (CIO) and 2017 MTN Women in ICTs. She is a member of the Black Information Technology Forum (BITF).

Mmamathe has completed various studies, namely a Master of Business Administration at the University of the North West; an Information Technology Diploma at Square One Data Processing College, a certificate in Information Technology PPPs for Development at the Institute of Public Private Partnerships (Washington DC, USA), a certificate in Information Technology Leadership for Chief Information Officers at WITS University (P&DM) and a certificate in Information Technology Management from WITS University.

## SARS Executive Committee



**Hlengani Mathebula**  
Chief Officer: Governance,  
International Relations, Strategy  
and Communications

Hlengani Mathebula joined SARS in January 2016 as Chief Officer for Governance, International Relations, Strategy and Communications (GISC). His expertise includes strategic business management and governance at board level, mainly in the Financial Services Sector.

Before joining SARS, Hlengani was the Head of Group Strategy and Communications at the South African Reserve Bank (SARB). Prior to that, he was the Managing Executive of Absa Private Bank and before that he was the CEO of FNB Personal Banking.

During his career, Hlengani acted in the following leadership positions: Chairman of the Eskom Pension and Provident Fund (EPPF), Chairman of the African Leadership Group, Chairman of the North West Growth Fund and member of the University of the Western Cape Council. Hlengani also served as a Non-Executive Director of DDB South Africa (Pty) LTD, Non-Executive Director of Vuma Reputation Management and Non-Executive Director of BMW Group South Africa.

He is currently the Chairman of the Black Business Executive Circle (BBEC).

Hlengani obtained the following qualifications: Master of Management – WITS Business School, BTh(Hons) and Bachelor of Arts (University of the North), Senior Executive Programme (Harvard Business School), MDP (Stellenbosch University).



**Johnstone Makhubu**  
Acting Chief Officer: Finance

Johnstone Makhubu joined SARS in June 2016 as the Group Executive: Procurement and is currently Acting Chief Officer: Finance, a division that is responsible for amongst others Procurement, Facilities Management/ Real Estate, SARS Accounts and Account Maintenance.

Johnstone started his career in Electrical Engineering in 2000 with Eskom (SOC) Ltd and further went on to hold various technical and commercial positions with amongst others Unilever SA and Tiger Brands Ltd including Services Manager and National Facilities Manager. Johnstone has worked extensively within the Supply Chain Management environment at Executive Manager level within Anglo American as well as Eskom where he headed up the Group Commercial Business Enablement Unit before joining SARS.

Johnstone holds a Bachelor of Science (Bsc Engineering) from the University of Kwazulu-Natal and a Bachelor of Commerce (B Comm) from the University of South Africa. Johnstone further completed a Master of Business Leadership (MBL) at the University of South Africa (UNISA) – Graduate School of Business Leadership and Senior Management Programme (SMP) with Henley Business School (SA).



**Luther Lebelo**  
Acting Chief Officer: Human  
Capital and Development

Luther Lebelo started his career as a Management Accountant at Telkom SA. He entered the Human Resources field in 2003 with his appointment as an Employee Relations Specialist. He continued his career in Employment Relations when he joined SARS in December 2006 as an Employment Relations Specialist and was later promoted to Senior Manager, then Executive and ultimately into his primary role as Group Executive: Employment Relations. Luther was subsequently appointed as Acting Chief Officer for Human Capital and Development from February 2018.

Having worked in the labour and employment related field for most of his career, Luther is intimately familiar and confident within this field thereby bringing undeniable value to the organisation through his knowledge and end-to-end experience within the employment relations and trade union environment. His role in the design of the new Operating Model for SARS in 2016 has added extensively to his business acumen and understanding of the organisation itself.

Luther recently successfully finalised his Masters in Business Leadership (MBL) course work with the University of South Africa (UNISA), adding to his existing qualifications in Labour Relations and Human Resources Management.



## SARS Executive Committee



**Refiloe Mokoena**  
Chief Officer: Legal Counsel

Refiloe Mokoena joined SARS in May 2017 as the Chief Officer for Legal Counsel.

Refiloe started her career as an attorney in 1990 and worked as an attorney and partner in various law firms until she was appointed as Executive: Corporate Compliance and Regulatory at Telkom Pty Ltd in 2008. Since 2015 she has been an Acting Judge of the High Court.

She is a professional member of the South African Women Lawyers Association and served in regulatory roles at ICASA and the Broadcasting Complaints Committee of South Africa. At Telkom she established a Compliance and Ethics office and trained law graduates to become Compliance and Ethics officers.

Refiloe holds a Bachelor of Laws (B.Juris) degree from the University of Zululand and a Bachelor of Laws (LLB) degree from the University of Kwazulu Natal.



**Fabian Murray**  
Acting Chief Officer: Business and Individual Taxes

Fabian Murray has held various leadership roles in both the private and public sector. He joined SARS in July 2006 as the General Manager: Operations Performance Analysis. Since then he has held various Group Executive positions within SARS, which included Group Executive: Customs Operations, Group Executive: Capacity Management, Group Executive: Compliance Risk and Case Selection and recently as the Acting Chief Officer: Business and Individual Taxes.

Prior to joining SARS he was the General Manager at Shatterprufe Automotive Glass. He held various leadership roles in the automotive industry which included Manufacturing Manager, Supply Chain Manager, Original Equipment Marketing Manager, Export Business Executive and General Manager. He spent 11 years in the automotive industry

Fabian holds a National Diploma in Mechanical Engineering (Peninsula Technikon), a Degree in Production Management (University of Port Elizabeth) and a Master of Business Administration (University of Stellenbosch).



**Mogola Makola**  
Chief Officer: Enforcement

Mogola Makola worked for Bowmans Corporate and Commercial Law Firm since 2000, first as a vacation student during the final year of her LLB degree. She was appointed as a candidate attorney in January 2001 and advanced from there to the levels of associate from February 2003 to February 2005 and senior associate in the tax department at Bowmans from March 2005 to February 2008.

On 1 March 2008 she was appointed as an equity partner in the tax department, a position which she held until 30 June 2017.

Mogola holds three degrees: BA (Law) (Rhodes University), LLB (Rhodes University) and LLM (Tax) (Wits University).



PERFORMANCE  
INFORMATION

PART TWO  
2

## Situational Analysis

### Global economic environment

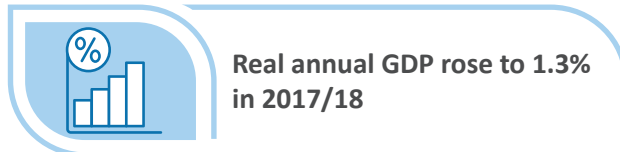
The global economic landscape is characterised by brighter prospects, as optimism around the world has somewhat increased. According to the April 2018 International Monetary Fund (IMF) World Economic Outlook (WEO) report, about 120 economies, accounting for three-quarters of the world Gross Domestic Product (GDP), have seen an uptick in growth in recent months. This is the broadest synchronised global growth upsurge since 2010. Key advanced economies include the United States, Eurozone, Japan and key emerging markets, as well as developing economies, including Brazil, China, and South Africa, have recently grown stronger than the earlier forecasts. In the United States (US), the revised tax code and the two-year budget agreement provide additional fiscal stimulus to the economy. In the rest of the developed economies, still-easy financial conditions continue to support global growth in the short term.

The WEO Report states that stronger prospects for growth in advanced economies resulted in revisions to the IMF's global growth outlook. In the January 2018 WEO, the IMF had expected global GDP growth in 2017 to average 3.7%, however, in the April 2018 report, the final outcome has been reported to be slightly higher at 3.8%. Better than expected growth outcomes in emerging and developing Europe also supported the uptick in the growth rate.

Growth in the advanced economies is forecast to accelerate to 2.5% in 2018 (previously 2.3%). Better prospects for commodity exporters will support growth in emerging markets and developing economies, which are expected to improve to 4.9% in 2018.

There are still challenges ahead but risks to the outlook appear balanced. Some of the old shocks are still providing some headwinds. These include rebalancing in China, growth rates and prospects in some emerging markets, capital flows, monetary policy in advanced economies and financing conditions. Other medium-term risks to the global growth outlook include a reversal in market sentiments, changes in the pace of the US monetary policy tightening, as well as import restrictions by the US.

### Domestic Economic Environment



At Budget 2017, the nominal GDP growth was estimated at 7.5% (real GDP at 1.3%) for 2017/18. This was revised down to 6.1% (real GDP 0.9%) at MTBPS 2017, as business and consumer confidence reached record low levels and the finance sector recorded a large contraction in Q1-2017. Optimism regarding economic performance in 2018 saw the nominal GDP outlook for 2017/18 being revised up to 6.7% (real GDP 1.3%) at Budget 2018. The annual growth rate was mainly driven by higher contributions from Finance, Real Estate and Business Services (1.9% growth); Agriculture, Forestry and Fishing (17.7% growth) and Mining and Quarrying (4.6% growth). Real annual GDP (expenditure) increased by 1.2% in 2017 from 0.6% in the previous year. The growth rates of some of the sub-components of GDP expenditure were as follows: Household Consumption (2.2%), Government Consumption (0.6%) and Gross Fixed Capital Formation (0.4%). The performance of the domestic economy in 2017 (relative to 2016) took place within the following context:

- Weak and volatile business and consumer confidence
- Recovery in Household Final Consumption Expenditure
- Lower inflation
- Politically sensitive rand exchange rate movements
- Credit rating downgrades



Economic sentiment in the business sector (Bureau of Economic Research (BER) Business Confidence Index) averaged 35 index points in 2017, compared to 37 index points in 2016. The biggest decline was between the first and second quarters of 2017, where the Business Confidence Index (BCI) declined by 11 index points to 29. Confidence declined across all of

the five sectors surveyed (Building, Manufacturing, Retail, Wholesale and New Vehicles), sparking concern of a business cycle downswing. The BCI recovered in the last two quarters of 2017 and was at 45 index points in Q1-2018, the highest since March 2015. Consumer sentiment averaged -31 index points in 2017 (-33 in 2016). Although consumers were slightly more positive about the outlook for the domestic economy, there has been less optimism regarding their individual financial position.


 **Household Final Consumption Expenditure grew by 2.2% year-on-year (YoY) in 2017**

One of the green shoots of the domestic economy in 2017 was the observed recovery in Household Final Consumption Expenditure (HFCE). HFCE grew by 2.2% year-on-year (YoY) in 2017 (0.7% YoY in 2016). The unexpected performance of HFCE was on the back of relatively weak demand side fundamentals such as weak consumer confidence, employment outcomes and credit growth. It is also probable that the annual growth rate was boosted by the Black Friday sales that occurred in Q4-2017.

In the short-term however, tax increases for 2018/19 and inadequate compensation for the fiscal drag could constrain consumption expenditure. For the greater part of 2017, the headline inflation rate was relatively well contained within the 3-6% target range. This was largely because of a reprieve in food price inflation (following lower agricultural prices), which historically exerted upward pressure on the inflation rate. It is anticipated that the increase to the VAT rate to 15% and other indirect fiscal increases (sugar tax and general fuel levy) will result in increased pressure on the inflation rate from early 2018. According to the South African Reserve Bank (SARB), the VAT increase should add about 0.6 percentage points to the headline inflation rate from Q2-2018. The rand exchange rate, which improved in the latter part of 2017, should support a lower inflation outlook despite the upward pressures.

The rand appreciated by 10.6% against the US dollar in 2017 and reached R12.40. Improved investor sentiment contributed to a stronger rand exchange rate. The exchange rate reacted favourably to the

political developments and increased appetite towards emerging-market currencies, which benefited

 **The rand appreciated by 10.6% against the US dollar in 2017 and reached R12.40**

from the weakness in the US dollar and rising global commodity prices. The latest round of sovereign credit rating outcomes by S&P, Fitch and Moody's between November 2017 and March 2018 was positive for the rand. The prospects of improved rating outcomes in 2018 will be dependent on a number of institutional, policy, economic and governance improvements.

### Policy developments

South Africa's fiscal policy is, in the main, captured in the Budget Review, which sets out the fiscal framework. The 2017 Budget Review sets out the tax proposals, most of which were implemented in 2017/18 and partially set the context for revenue collected during the year. The 2017 tax proposals reflect government's commitment to narrow the budget deficit, stabilise debt and maintain sustainable public finances. The aim is to further ensure that the tax system remains fair, efficient, equitable and progressive. The 2017 Budget tax proposals were expected to raise R28 billion to revenue in 2017/18. The following proposed changes were presented in Chapter Four of the 2017 Budget Review:

- Government proposed a new top personal income tax bracket of 45% for taxable incomes above R1.5 million per annum.
- Limited relief for bracket creep - the primary, secondary and tertiary rebates, as well as the levels of all the taxable income brackets, were increased by 1% from March 2017. The tax-free threshold increased from R75 000 to R75 750.
- To counter the effect of inflation, the medical tax credit increased for the first two beneficiaries from R286 to R303 per month, and from R192 to R204 per month for the remaining beneficiaries.
- Dividends tax increased to 20%, effective from 22 February 2017.
- There was a 30c per litre increase in the general fuel levy and a 9c per litre increase in the Road Accident Fund (RAF) fuel levy.

## Revenue Performance

The 2017/18 total tax revenue estimate (Printed Estimate), based on a 1.3% Gross Domestic Product (GDP) growth outlook, was set at R1 265.5 billion in the February 2017 Budget. The estimate was then revised to R1 217.3 billion in the February 2018 Budget (Revised Estimate), based on deteriorating economic conditions. Collections for the 2017/18 financial year amounted to R1 216.5 billion, R843 million below the revised target of R1 217.3 billion.

The preliminary ratio of revenue growth to economic growth (buoyancy) is estimated at 0.91, which is below the long-term average of 1.07. Furthermore, a Tax-to-GDP ratio of 25.8% was achieved in a very weak economic growth environment. This tax extraction rate is normally achieved during higher levels of economic growth. Revenue collection is driven by the state of the economy, the fiscal policy choices, administrative efficiency and taxpayer compliance or tax morality. As much as the performance of any tax administration is premised on the economy, other key

determinants are legislation (tax policy), sentiment and tax morality, as well as the credibility of the tax administration.

Figures have been rounded so discrepancies may occur between the numbers of the component items and totals in the tables.

### Budget Estimates

Revenue estimates for the next three years, the medium term, are set or adjusted on three occasions during the financial year. For 2017/18, estimates were announced in the February 2017 Budget (generally referred to as the Printed Estimate), in October 2017 in the Medium Term Budget Policy Statement (MTBPS) and in the February 2018 Budget (the Revised Estimate). Revenue estimates are predicted by using various statistical models. They take into account prevailing and forecasted economic conditions, and provide detailed analysis of the likely performance of the different tax types.

Estimate description	Date announced	2016/17 Estimate	Date announced	2017/18 Estimate
		R million		R million
Printed Estimate	24 February 2016	1 174 788	22 February 2017	1 265 488
Medium Term Budget Policy Statement (MTBPS) Estimate	26 October 2016	1 152 026	25 October 2017	1 214 727
<b>Revised Estimate</b>	<b>22 February 2017</b>	<b>1 144 382</b>	<b>21 February 2018</b>	<b>1 217 307</b>

### Budget Revenue Performance

The table below shows the contribution of tax revenue and non-tax revenue to total national budget revenue. Payments to Botswana, Lesotho, Namibia and Swaziland (BLNS) in terms of the Southern African Customs Union (SACU) agreement are deducted. Included in the total non-tax revenue that SARS collects is Mineral and Petroleum Resource Royalties (MPRR),

mining leases and ownership, as well as receipts from other State departments and extraordinary receipts. SARS also collects Unemployment Insurance Fund (UIF) and Skills Development Levy (SDL) contributions for the Department of Labour and Road Accident Fund (RAF) levies on behalf of the Department of Transport.

Tax type	Printed estimate Feb 2017	Revised estimate Feb 2018	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Tax revenue	1 265 488	1 217 307	1 216 464	-49 024	-843
Non-tax revenue	32 880	33 229	33 374	494	145
Mineral and Petroleum Resource Royalties	6 688	7 522	7 617	929	95
Mining leases and ownership	120	183	180	60	-3
Other non-tax revenue and extraordinary receipts	26 072	25 525	25 577	-494	53
Less: SACU payments	-55 951	-55 951	-55 951	-	0
<b>Total budget revenue</b>	<b>1 242 417</b>	<b>1 194 585</b>	<b>1 193 887</b>	<b>-48 530</b>	<b>-698</b>

## Tax Type Performance

Personal Income Tax (PIT), which accounts for approximately 38.1% of total revenue, grew by 8.7% in 2017/18. This growth was lower compared to previous years, as a result of lower wage settlements, job shedding and increasing unemployment.

Company Income Tax (CIT) grew moderately due to a number of economic developments that occurred during the previous financial year, such as the downgrading of major banks and insurance companies, as well as the volatility in commodity prices.

Although the adverse economic conditions negatively affected company profitability and CIT collections, an improvement in commodity prices, particularly the crude oil and coal prices, which grew by 22.9% and 11.2% respectively since April 2017, provided some relief to CIT. CIT grew at a lower rate of 6.4% in nominal terms, compared to 7.1% achieved in 2016/17. Part of this growth can be ascribed to

improved compliance measures, regional revenue drives, as well as initiatives that were implemented. In the absence of these interventions, CIT revenue would most likely have contracted.

The split between Customs and Excise Revenue and Tax Revenue, recorded at the bottom of the table, shows that Customs and Excise Revenue came in slightly below the Revised Estimate by R1.5 billion, offset by the higher than estimated collections in Tax Revenue of R0.6 billion. Negative levels of growth in merchandise imports in the first half of 2017/18 impacted negatively on revenue from customs.

Domestic VAT collections were below the Revised Estimate by 0.3%, this is as real household consumption expenditure grew by a sluggish 2.2% in 2017 from a growth of 0.7% in 2016. High unemployment, moderate household income growth, and high indebtedness have resulted in subdued consumer spending.

Tax type	Printed estimate Feb 2017	Revised estimate Feb 2018	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Personal Income Tax (PIT)	483 328	462 625	462 903	-20 425	278
Company Income Tax (CIT)	221 104	220 586	220 239	-866	-347
Secondary Tax on Companies (STC) / Dividends Tax (DT)	34 237	29 037	27 894	-6 343	-1 143
Value-Added Tax (VAT)	312 750	299 058	297 998	-14 753	-1 061
Domestic VAT	344 823	337 321	336 279	-8 544	-1 042
Import VAT	162 304	153 758	152 789	-9 515	-969
VAT refunds	-194 377	-192 021	-191 071	3 306	950
Fuel levy	70 902	71 340	70 949	47	-391
Customs duties	52 608	49 011	49 152	-3 456	141
Specific excise duties	39 871	37 275	37 356	-2 515	81
Taxes on property	16 509	16 047	16 585	76	537
Skills development levy	16 641	15 771	16 012	-629	242
Other taxes and duties	17 538	16 557	17 377	-161	820
<b>Total tax revenue</b>	<b>1 265 488</b>	<b>1 217 307</b>	<b>1 216 464</b>	<b>-49 024</b>	<b>-843</b>
Customs and Excise revenue	342 481	328 241	326 753	-15 728	-1 488
Tax revenue (excluding customs and excise revenue)	923 008	889 066	889 711	-33 297	645
<b>Total tax revenue</b>	<b>1 265 488</b>	<b>1 217 307</b>	<b>1 216 464</b>	<b>-49 024</b>	<b>-843</b>

## Breakdown of tax revenue

PIT, CIT and Value-Added Tax (VAT) remain the largest sources of tax revenue, and comprise about 80% of total tax revenue collections. The table provides a breakdown of the relative contributions of the different taxes. The relative contribution of taxes to the tax revenue portfolio has changed over the past six years. The relative contribution of CIT fell from 19.8% in the 2012/13 financial year to 18.1% in the

2017/18 financial year, while PIT increased from 34.0% to 38.1%, and VAT declined from 26.4% to 24.5% during this period.

The Tax-to-GDP ratio has shown a steady increase and has reached a six year high of 25.8% in the year under review.

Year	PIT	CIT	DT/STC	VAT	Fuel levy	Customs duties	Other	Total tax revenue	GDP*
	R million	R million	R million	R million	R million	R million	R million	R million	R million
2012/13	276 679	160 896	19 739	215 023	40 410	38 998	62 081	813 826	3 320 754
2013/14	310 929	179 520	17 309	237 667	43 685	44 179	66 727	900 015	3 614 459
2014/15	353 918	186 622	21 247	261 295	48 467	40 679	74 068	986 295	3 865 926
2015/16	389 280	193 385	23 934	281 111	55 607	46 250	80 414	1 069 983	4 126 998
2016/17	425 924	207 027	31 130	289 167	62 779	45 579	82 475	1 144 081	4 412 750
<b>2017/18</b>	<b>462 903</b>	<b>220 239</b>	<b>27 894</b>	<b>297 991</b>	<b>70 949</b>	<b>49 154</b>	<b>87 330</b>	<b>1 216 464</b>	<b>4 720 684</b>
	%	%	%	%	%	%	%	%	%
2012/13	34.0%	19.8%	2.4%	26.4%	5.0%	4.8%	7.6%	100.0%	24.5%
2013/14	34.5%	19.9%	1.9%	26.4%	4.9%	4.9%	7.4%	100.0%	24.9%
2014/15	35.9%	18.9%	2.2%	26.5%	4.9%	4.1%	7.5%	100.0%	25.5%
2015/16	36.4%	18.1%	2.2%	26.3%	5.2%	4.3%	7.5%	100.0%	25.9%
2016/17	37.2%	18.1%	2.7%	25.3%	5.5%	4.0%	7.2%	100.0%	25.9%
<b>2017/18</b>	<b>38.1%</b>	<b>18.1%</b>	<b>2.3%</b>	<b>24.5%</b>	<b>5.8%</b>	<b>4.0%</b>	<b>7.2%</b>	<b>100.0%</b>	<b>25.8%</b>

\* Source: Q1-2018 GDP, Statistics SA.

## Tax relief and rates

Tax relief implemented during the past five years curtailed taxpayers' direct tax obligations and raised indirect taxes. Reforms applied across a variety of tax

products resulted in net tax relief to taxpayers of R28.0 billion in the 2017/18 financial year.

Year	Direct				Indirect				Other	Total relief
	PIT	CIT	Other	Total	Excise	Fuel levy	Other	Total		
	R million	R million	R million	R million	R million	R million	R million	R million		R million
2012/13	-9 800	1 100	-1 950	-10 650	1 840	4 517	1 985	8 342		-2 308
2013/14	-7 382	-860	-	-8 242	2 065	3 270	495	5 830		-2 412
2014/15	-9 250	-1 000	-	-10 250	2 110	2 565	-	4 675		-5 575
2015/16	-	-150	100	-50	1 835	6 490	-	8 325		8 275
2016/17	-5 650	1 000	100	-4 550	2 284	6 800	-	9 084	456	4 990
<b>2017/18</b>	<b>16 516</b>	<b>-</b>	<b>6 374</b>	<b>22 891</b>	<b>1 936</b>	<b>3 197</b>	<b>-</b>	<b>5 133</b>		<b>28 024</b>
<b>Total</b>	<b>-15 566</b>	<b>90</b>	<b>4 624</b>	<b>-10 851</b>	<b>12 070</b>	<b>26 839</b>	<b>2 480</b>	<b>41 390</b>	<b>456</b>	<b>30 995</b>

## Marginal tax rates

Maximum marginal tax rates remained unchanged across most tax types. The exception was Personal Income Tax (PIT) and Secondary Tax on Companies (STC). The marginal tax rate for PIT has increased from 41% to 45% effective 1 March 2017.

STC was replaced with Dividends Tax (DT), imposed at a rate of 15%, from 1 April 2012. From 22 February 2017 the DT rate has increased to 20%. Despite the tax relief granted during this period, tax revenue continued to grow as a result of economic growth and increased compliance.

Period	PIT*	CIT	STC/DT	VAT
	%	%	%	%
01 Apr 2012 – 31 Mar 2013	40.0%	28.0%	**15.0%	14.0%
01 Apr 2013 – 31 Mar 2014	40.0%	28.0%	15.0%	14.0%
01 Apr 2014 – 28 Feb 2015	40.0%	28.0%	15.0%	14.0%
01 Mar 2015 – 31 Mar 2015	*41.0%	28.0%	15.0%	14.0%
01 Apr 2015 – 31 Mar 2016	41.0%	28.0%	15.0%	14.0%
01 Apr 2016 – 21 Feb 2017	41.0%	28.0%	15.0%	14.0%
22 Feb 2017 – 28 Feb 2017	41.0%	28.0%	** 20.0%	14.0%
01 Mar 2017 – 31 Mar 2017	*45.0%	28.0%	20.0%	14.0%
<b>01 Apr 2017 – 31 Mar 2018</b>	<b>45.0%</b>	<b>28.0%</b>	<b>20.0%</b>	<b>14.0%</b>

Note: \* An individual's tax year starts on 1 March and ends at the end of February the subsequent year. The maximum marginal rate for Individuals increased from 40% to 41% with effect from 1 March 2015 and from 41% to 45% on 01 March 2017.

\*\* Secondary Tax on Companies (STC) at a rate of 10% was replaced with Dividends Tax (DT) at a rate of 15% on 1 April 2012 and the rate of DT was increased to 20% on 22 February 2017.

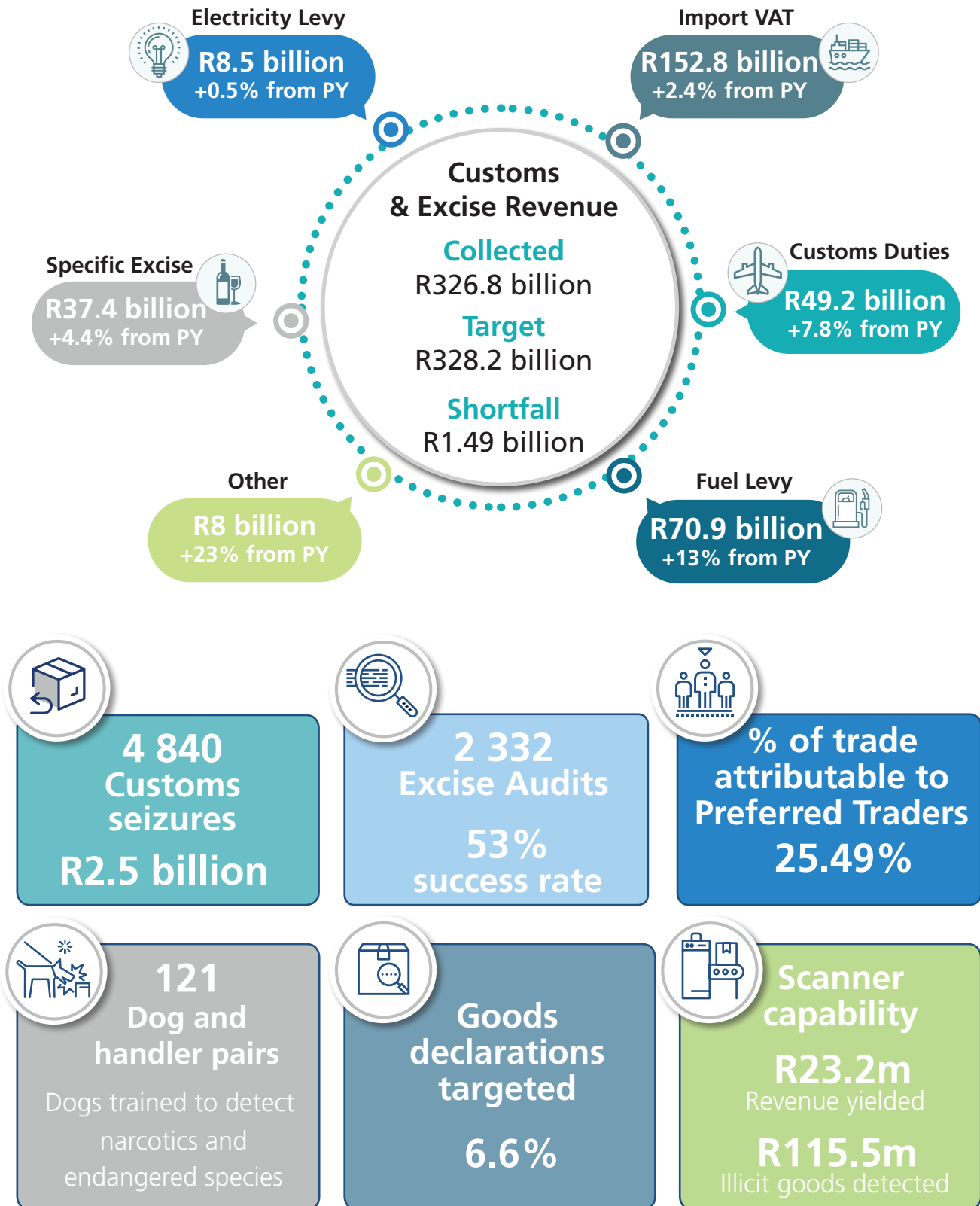


Strategic Outcome:  
Increased Customs and Excise Compliance

# Outcome ONE



## OUTCOME 1 – Increased Customs and Excise Compliance



PY = Prior Year

## Increased Customs and Excise Compliance

### Customs and Excise Revenue Performance

SARS collected R326.8 billion in Customs and Excise revenue during the 2017/18 financial year, R1.5 billion below the Revised Estimate of R328.2 billion, with shortages in collections of Import

VAT and General Fuel Levy accounting for most of this deficit. Import VAT is levied on goods imported into South Africa and is calculated according to the value of these products.

Tax type	Printed estimate Feb 2017	Revised estimate Feb 2018	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Import VAT	162 304	153 758	152 782	-9 515	-969
Customs duties	52 608	49 011	49 152	-3 456	141
Specific excise	39 871	37 275	37 356	-2 515	81
Fuel levy	70 902	71 340	70 949	47	-391
Electricity levy	8 642	8 496	8 501	-141	5
Incandescent light bulb levy	91	60	55	-35	-4
Miscellaneous customs & excise	893	1 087	701	-192	-387
Other*	7 171	7 214	7 251	80	37
<b>Total customs and excise revenue</b>	<b>342 481</b>	<b>328 241</b>	<b>326 753</b>	<b>-15 728</b>	<b>-1 488</b>

\* Other includes Air departure tax, Plastic bags levy, CO2 tax, Tyre levy, International Oil pollution levy fund, Diamond Export levy and Ad Valorem excise

### Import VAT

Import VAT collections in 2017/18 grew by 2.4% against the prior year's low base, which experienced a 1.0% contraction. However, this was below the rate of 3.0% required to achieve the Revised Estimate, resulting in a R1.0 billion (0.6%) shortfall against the 2017/18 target. The performance in the first half of 2017/18 continued on the negative trajectory which developed in 2016/17, while the second half of the year exhibited a recovery driven by an expansion

in merchandise import levels, combined with a significant improvement of the domestic currency in the final quarter. However, this was weighed down by the subdued levels of investment, domestic demand and household consumption. The improvement from key commodities such as vehicles and mineral fuels were offset by a reduction in contributions from medical equipment as well as aircraft and parts.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	111 427	9.4%	13.7%	3.4%
2013/14	131 085	17.6%	14.6%	3.6%
2014/15	136 544	4.2%	13.8%	3.5%
2015/16	150 745	10.4%	14.1%	3.7%
2016/17	149 265	-1.0%	13.0%	3.4%
<b>2017/18</b>	<b>152 789</b>	<b>2.4%</b>	<b>12.6%</b>	<b>3.2%</b>

## Customs Duties

Following a 1.5% shrinkage in 2016/17, Customs duty collections in 2017/18 amounted to R49.2 billion, representing a growth rate of 7.8% against the prior year's low base and exceeding the Revised Estimate by a marginal R0.1 billion (0.3%). This recovery was due to an upswing in import levels in the second half

of the fiscal year following a bleak first half, combined with significant improvement in the domestic currency in the final quarter. The growth was driven by increases in contributions from key commodities namely, *vehicles, meat products, tobacco products, beverages and articles of rubber*, among others.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	38 998	14.0%	4.8%	1.2%
2013/14	44 179	13.3%	4.9%	1.2%
2014/15	40 679	-7.9%	4.1%	1.1%
2015/16	46 250	13.7%	4.3%	1.1%
2016/17	45 579	-1.5%	4.0%	1.0%
<b>2017/18</b>	<b>49 152</b>	<b>7.8%</b>	<b>4.0%</b>	<b>1.0%</b>

## Specific Excise

SARS collected R37.4 billion in Specific Excise revenue during the 2017/18 financial year. The percentage contribution to total tax revenue collected by SARS declined from 3.5% during the 2012/13 year to 3.1% at the end of the 2017/18 year. The year-on-year

growth of 4.4% is higher than the growth of 2.0% in the previous year, and year-on-year growths are impacted by changes in consumption and demand, as well as changes in activities by companies producing these goods.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	28 378	11.7%	3.5%	0.9%
2013/14	29 039	2.3%	3.2%	0.8%
2014/15	32 334	11.3%	3.3%	0.8%
2015/16	35 077	8.5%	3.3%	0.8%
2016/17	35 774	2.0%	3.1%	0.8%
<b>2017/18</b>	<b>37 356</b>	<b>4.4%</b>	<b>3.1%</b>	<b>0.8%</b>

## Fuel levy

According to the table below, the fuel levy did register a growth of 13.0% in collections, mainly as a result of a 10.5% rate increase announced from April 2017. The growth decreased from 14.7% at the end of 2015/16, to 13.0% at the end of 2017/18. Fuel levy on imports

were lower than expected, which can be ascribed to high costs as a result of exchange rate fluctuations and the reduction in diesel consumption used for electricity generation.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	40 410	10.4%	5.0%	1.2%
2013/14	43 685	8.1%	4.9%	1.2%
2014/15	48 467	10.9%	4.9%	1.3%
2015/16	55 607	14.7%	5.2%	1.3%
2016/17	62 779	12.9%	5.5%	1.4%
<b>2017/18</b>	<b>70 949</b>	<b>13.0%</b>	<b>5.8%</b>	<b>1.5%</b>

## Electricity Levy

Collections in respect of the electricity levy in 2017/18, compared to the previous year, ended in a growth of 0.5%. This is higher than the 0.2% decline recorded in 2016/17.

Collections display double digit growths in earlier years, but started to decline in the 2013/14 financial year. The growth in collections during the earlier

few years was mainly driven by the rate increase (from 2.5 cents per k/Wh to 3.5 cents per k/Wh) implemented in July 2012. Although the duty rate increased by 40.0% effective from 1 July 2012, growth in consumption was slow. The expectation is that the demand for electricity will decrease as a result of the muted economy, as well as a continued interest in, and migration to renewable energy sources.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	7 984	26.3%	1.0%	0.2%
2013/14	8 819	10.5%	1.0%	0.2%
2014/15	8 648	-1.9%	0.9%	0.2%
2015/16	8 472	-2.0%	0.8%	0.2%
2016/17	8 458	-0.2%	0.7%	0.2%
2017/18	8 501	0.5%	0.7%	0.2%

## Additional Customs and Excise revenue

- Prepared for implementation of the Health Promotion Levy and implemented on 1 April 2018.
- Completed 2 332 Excise audits during the year, which is 92.03% of the active Excise clients.



**729 Narcotic seizures**  
R326.9m

**66 Cocaine seizures - 457kg**

40% of value

**30 Crystal Meth seizures - 195kg**

21%

**19 Ecstasy seizures - 121kg**

11%

**24 Miscellaneous seizures - 6 253kg**

10%

**78 Heroin seizures - 125kg**

9%

**8 Ephedrine seizures - 80kg**

7%

**497**  
Mail Centre  
seizures

**189**  
Airport  
seizures

**43**  
Land Port  
seizures

## Improve control over the flow of all goods and travellers entering and leaving the country

- Enhance end-to-end control of goods by completing the Goods Control Project pilots for the air and sea modalities.
- The system will be rolled-out in the 2018/19 financial year.
- The increase of electronic cargo manifest submissions by sea and air carriers to 70% could not be effected. This objective will receive attention in the next financial year.
- The implementation of the track-and-trace marker for cigarettes is being extended to include all excisable products. This benchmarking and tender process is under way.
- Deployment of the air cargo scanner at ORTIA and mobile cargo scanner at City Deep is progressing well with the finalisation of lease agreements for the scanner sites being the next important milestone. This project will continue into the 2018/19 financial year.
- Three of the envisaged six baggage scanners were installed at three border posts and SARS is in the process of procuring another four large aperture baggage scanners.
- Improve Customs and Excise risk identification and targeting capabilities.
- Redesigned and developed a risk engine which will deliver cases into a new automated workflow for



Post Clearance Audit cases. Change management activities have commenced and will be implemented in the next financial year.

- Accreditation of 27 level 2 Preferred Trader clients by the Accreditation Review Customs Committee (ARCC) has been achieved.
- Bi-monthly meetings held by the ARCC for the approval of accreditation status have been institutionalised.
- Implement enhancements to the cargo risk engine to improve effectiveness and update the risk rules. Accredited clients can now also be identified on this system.

### High Profile Customs Seizures



**383 Cigarettes busts worth R29.7 million**  
(61.4 million sticks)



**51 Clothing and textile busts worth R76.9 million**  
(6.9 million items)



**21 Currency busts worth R79.3 million**  
(R17.3m, £4 520, \$4.5m)



**1 698 Counterfeit goods busts worth R1.8 billion**  
(3.3 million items)



**53 Tobacco busts worth R55 511**  
(12 656 kg)

### Improve State Warehouse Infrastructure

- The State Warehouse refurbishment was completed for Cape Town and Lebombo.
- Control room in the Cape Town State Warehouse has been established to improve the security of the goods.
- The State Warehouse Inventory Management System has been installed in the Cape Town Warehouse to better manage inventory.

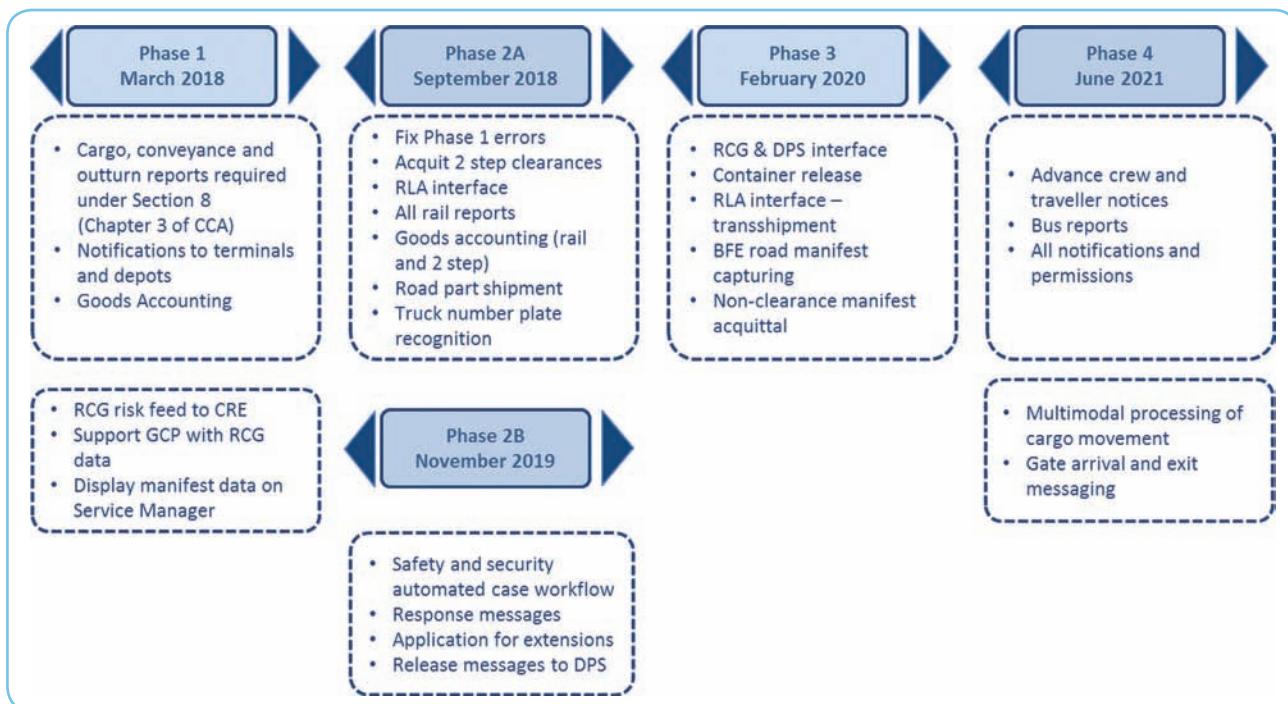
### Adopt a whole-of-government approach

- Internal processes have commenced for the operationalisation of the One Stop Border Post (OSBP) between South Africa and Mozambique, as well as South Africa and Zimbabwe, as part of the preparations for the Bi-National Commission.
- The Border Management Agency (BMA) Project Management Office (PMO) worked with the Department of Planning, Monitoring and Evaluation (DPME) to undertake the Socio-Economic Impact Assessment System (SEIAS) for the draft OSBP Policy.
- The Department of Home Affairs (DHA) submitted the draft National Policy on OSBP to Cabinet by 31 March 2018 for approval.
- SARS is considering leveraging off the SARS technology platform to assist the Department of Agriculture, Forestry and Fisheries (DAFF) to improve effectiveness across the value chain, in support of a single window environment.
- The BMA Bill was approved by the National Assembly on 8 June 2017, but still requires the National Council of Provinces' (NCOP) approval and assent by the President. SARS continues collaborating with National Treasury to ensure the stabilisation of fiscal functions.

## New Customs and Excise legal framework

- The first phase of the Customs Sufficient Knowledge (CSK) trader pilot concluded in December 2017. The system will be activated and aligned with the Reporting of Conveyances and Goods (RCG) implementation.
- Registration, Licensing and Accreditation (RLA) was on track for production readiness in the 2015/16 financial year. Subsequently, the NCAP Steering Committee requested that RLA be aligned with the new set of legal rules as supplied in March 2017.
- Reporting of Conveyances and Goods (RCG) Release 1 is ready for production. The implementation approach has been presented to all stakeholders and is scheduled for April 2018.
- The Declaration Processing (DPS) project delivery schedule is the most affected by the extended business case due to the prioritisation of critical functionality required by Customs.
- There will be four tactical releases, in phases, to introduce the processes aligned with the new Act under the 1964 Customs and Excise Act, and two releases of the current Interfront Customs Business Solutions (iCBS) solution to introduce the 2014 Customs Acts will follow.
- DPS tactical release one is in full progress. Tactical release two, three and four require re-planning to ensure alignment with the change request process business needs and resource availability.

## Implementation schedule



## International benchmarking exercise

- The prioritisation of the re-establishment of Tariff, Valuation and Origin Committees (TVOC).
- During engagements with various offices, the Terms of Reference (TOR) were reviewed.
- Terms of Reference provide guidance on the formation, purpose and objective of these committees.
- Although a rotation policy for front-line officers was considered, the Policy Steering Committee

concluded that this initiative is not viable for SARS.

- The following reasons were given:
  - Alternative solutions could deliver the same envisaged benefits.
  - A cost-benefit analysis did not justify the cost involved.
  - Limitations in terms of infrastructure and funds.
- In an effort to curb illicit tobacco trade in the South African market, SARS decided, as part of its broader strategy, to implement an integrated compliance strategy from 2014.





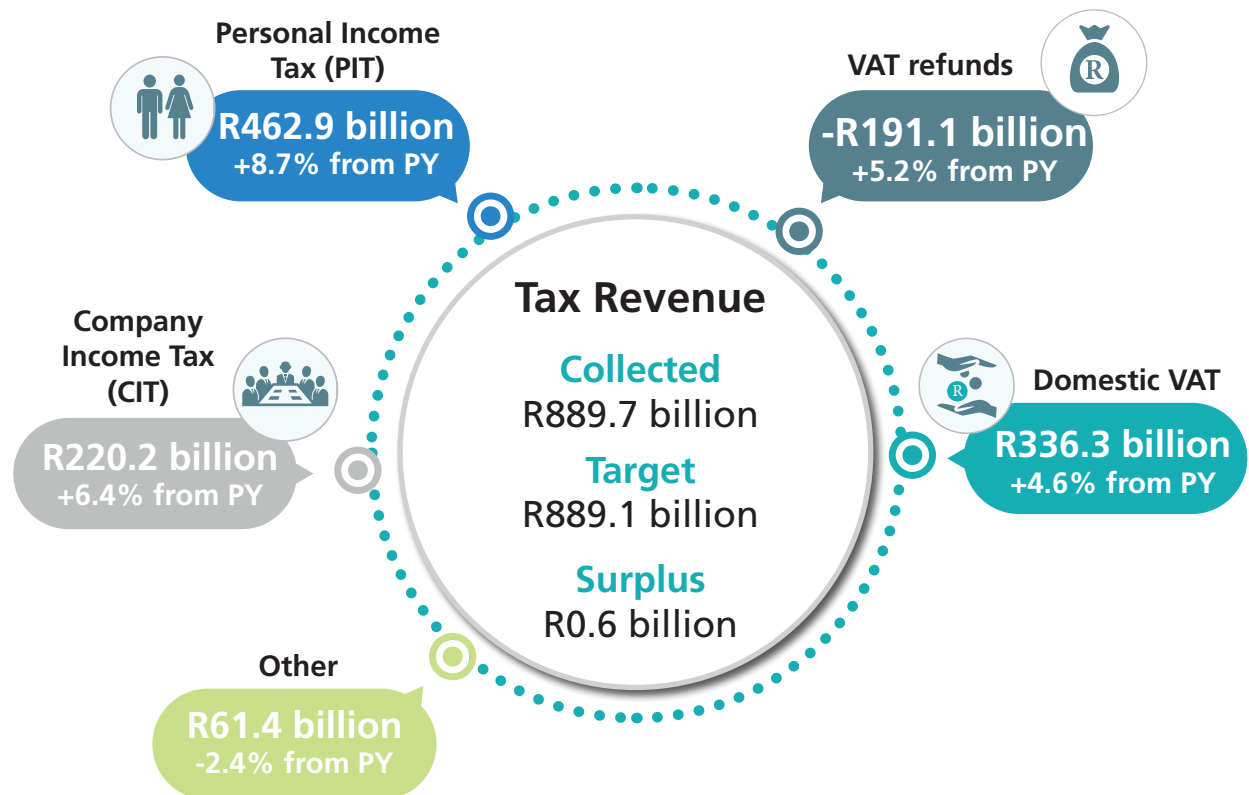
## Performance Information

- The cigarette and tobacco manufacturers are subjected to multi-tax, integrated audits.
- SARS reviewed specific legislative provisions in terms of tightening control over locally manufactured and imported cigarettes. This included:
  - Review of Section 113 of the Customs and Excise Act, to introduce weight limits for cigarettes manufactured and imported.
  - Section 35A of the Customs and Excise Act introduced unique identifying markers to track and monitor cigarettes manufactured, imported or exported.
- New technology is being considered to provide greater assurance for the tobacco products that are manufactured and declared to SARS.
- During the year under review, SARS conducted a total of 51 audits, 43 business reviews and factory visits, collected 10 outstanding returns, and banked R228 263 218.45 in revenue.

Strategic Outcome:  
Increased Tax Compliance

# Outcome TWO

## OUTCOME 2 – Increased Tax Compliance



**Investigative Audit Cases**

Target	Completed
SMME <b>6 000</b>	SMME <b>11 229</b>
Large Business <b>300</b>	Large Business <b>591</b>
Base Erosion and Profit Shifting <b>30</b>	Base Erosion and Profit Shifting <b>39</b>
High-Net-Worth Individuals <b>130</b>	High-Net-Worth Individuals <b>270</b>



PY = Prior Year

## Revenue Performance

### Tax revenue performance (excluding Customs)

Tax revenue, excluding Customs Revenue, collected during the 2017/18 financial year amounted to R889.7 billion. This was R645 million above the Revised Estimate of R889.1 billion.

Tax type	Printed estimate Feb 2017	Revised estimate Feb 2018	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Personal Income Tax (PIT)	483 328	462 625	462 903	-20 425	278
Company Income Tax (CIT)	221 104	220 586	220 239	-866	-347
STC/DT	34 237	29 037	27 894	-6 343	-1 143
Domestic VAT	344 823	337 321	336 279	-8 544	-1 042
VAT refunds	-194 377	-192 021	-191 071	3 306	950
Fuel levy	70 902	71 340	70 949	47	-391
Specific excise duties	39 871	37 275	37 356	-2 515	81
Taxes on property	16 509	16 047	16 585	76	537
Skills development levy	16 641	15 771	16 012	-629	242
Other taxes and duties	-110 031	-108 915	-107 435	2 595	1 480
<b>Total tax revenue (excl customs and excise)</b>	<b>923 008</b>	<b>889 066</b>	<b>889 711</b>	<b>-33 297</b>	<b>645</b>

### Personal Income Tax

PIT collections grew to R462.9 billion, R0.3 billion higher than the Revised Estimate of R462.6 billion, and contributed 38.1% of total revenue collections for the year under review. PIT is the largest contributor to tax revenue. It comprises of assessed and provisional tax, as well as Pay-As-You-Earn (PAYE) collected by employers on behalf of employees (net of refunds).

Legislative changes to retirement reforms account for a substantial amount of the shortfall in PIT collections.

These changes allowed higher tax deductions for retirement contributions, which resulted in higher than expected PIT refunds, as well as lower PAYE collections. Furthermore, the poor growth in PIT collections was as a result of lower wage settlements, job shedding, increased unemployment and inflation. PIT, as a percentage of GDP, has grown during this period from 9.4% in 2015/16 to 9.8% in 2017/18. The table shows the trend of increasing PIT collections from the 2012/13 to 2017/18 financial years.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	276 679	10.1%	34.0%	8.3%
2013/14	310 929	12.4%	34.5%	8.6%
2014/15	353 918	13.8%	35.9%	9.2%
2015/16	389 280	10.0%	36.4%	9.4%
2016/17	425 924	9.4%	37.2%	9.7%
<b>2017/18</b>	<b>462 903</b>	<b>8.7%</b>	<b>38.1%</b>	<b>9.8%</b>

Note: PIT (Including interest)

## Corporate Income Tax

CIT revenue, which comprises all provisional and assessed taxes paid by companies (net of refunds), grew by 6.4% to R220.2 billion, compared to the previous year. During the year under review, CIT revenue grew marginally due to an improvement in commodity prices (particularly the crude oil and coal prices). The sluggish recovery of CIT during the past five years is the main reason for the fluctuating Tax-to-GDP ratio.

Sector contributions to CIT revenue have changed significantly since the global financial crisis.

The contribution of the mining sector improved significantly, following an improvement in coal as well as iron ore prices in 2017/18. The mining and quarrying; financial intermediation, insurance, real estate and business services, as well as the manufacturing sectors, were affected by a number of economic developments. However, these sectors took a turn for the better and saw substantial gains in the month of December 2017. Increased contributions from the mining sector (up by 22.4%) and financial services sectors (up by 6.8%) bolstered CIT growth during the 2017/18 financial year.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	160 896	5.0%	19.8%	4.8%
2013/14	179 520	11.6%	19.9%	5.0%
2014/15	186 622	4.0%	18.9%	4.8%
2015/16	193 385	3.6%	18.1%	4.7%
2016/17	207 027	7.1%	18.1%	4.7%
<b>2017/18</b>	<b>220 239</b>	<b>6.4%</b>	<b>18.1%</b>	<b>4.7%</b>

Note: CIT (Including interest)

## Dividends Tax/Secondary Tax on Companies

DT/STC grew in the 2016/17 financial year by R7.2 billion (30.1%) compared to 2015/16. It grew at a higher rate as companies opted to distribute profits (current and retained) to shareholders rather than reinvesting them. The increase in the DT rate from 15% to 20%, effective from 22 February 2017, also contributed to the growth in DT collections. Due to the change in this tax rate, a substantial number of dividend taxpayers paid Dividends Tax in the month of February and March 2017. The rate was applicable to

any dividends declared but not yet paid by 22 February 2017. DT/STC declined significantly in 2017/18 by R3.2 billion (10.4%) compared to 2016/17. The poor performance is a result of companies anticipating an increase in the Dividends Tax rate, which changed from 15% to 20% effective from 22 February 2017, and declaring extra-ordinarily high dividends. Furthermore, unusually high payments received in February and March 2017 did not occur again in 2017/18.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	19 739	-10.1%	2.4%	0.6%
STC	9 814	-	1.2%	0.3%
DT	9 925	-	1.2%	0.3%
2013/14	17 309	-12.3%	1.9%	0.5%
STC	911	-90.7%	0.1%	0.0%
DT	16 398	65.2%	1.8%	0.5%
2014/15	21 247	22.8%	2.2%	0.5%
STC	547	-39.9%	0.1%	0.0%
DT	20 700	26.2%	2.1%	0.5%
2015/16	23 934	12.6%	2.2%	0.6%
STC	428	-97.9%	0.0%	0.0%
DT	23 507	13.6%	2.2%	0.6%
2016/17	31 130	30.1%	2.7%	0.7%
STC	423	-1.1%	0.0%	0.0%
DT	30 707	30.6%	2.7%	0.7%
<b>2017/18</b>	<b>27 894</b>	<b>-10.4%</b>	<b>2.3%</b>	<b>0.6%</b>
STC	176	-58.4%	0.0%	0.0%
DT	27 719	-9.7%	2.3%	0.6%

## Domestic VAT

Domestic VAT collections amounted to R336.3 billion in 2017/18, R14.8 billion (4.6%) higher than the previous year. Collections were constrained by the payments from large vendors, which grew by a sluggish R1.3 billion (1.0%) compared to a growth of R7.1 billion (5.6%) in the previous year. The small to medium vendors remained the drivers of growth despite growing at a slower pace and yielding R13.5 billion (7.2%), compared to R16.9 billion (9.9%) in the previous year. The major contributing sectors

to the Domestic VAT growth were finance R5.8 billion (4.2%); wholesale and retail trade R2.5 billion (5.1%); as well as manufacturing R1.9 billion (4.0%). While the finance sector is the largest nominal contributor (42.6%), its 2017/18 growth of 4.2% is low compared to its previous five-year average of 8.4%. Construction, as well as the mining and quarrying sectors, had the lowest nominal growth of R0.3 billion (1.5%) and R0.5 billion (5.0%) respectively.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	242 416	10.1%	29.8%	7.3%
2013/14	263 461	8.7%	29.3%	7.3%
2014/15	286 889	8.9%	29.1%	7.4%
2015/16	297 422	3.7%	27.8%	7.2%
2016/17	321 475	8.1%	28.1%	7.3%
<b>2017/18</b>	<b>336 279</b>	<b>4.6%</b>	<b>27.6%</b>	<b>7.1%</b>

## VAT Refunds

VAT refunds grew by a slower pace of 5.2% in 2017/18 compared to a growth of 8.7% in 2016/17. Real gross fixed capital formation expanded by a marginal 0.4% in 2017/18, following a contraction of 4.1% in 2016/17. The marginal improvement came from a low base as the year was still characterised by relatively weak economic growth and low business confidence.

The mining and quarrying, finance, wholesale and retail trade, as well as manufacturing sectors received the

largest amount of VAT refunds in 2017/18. The mining and quarrying sector as well as vehicle manufacturers which are classified under the wholesale and retail trade sector, benefitted from zero-rated exports. The finance sector received substantial refunds mainly because of holding companies claiming high input costs. The manufacturers received higher refunds as a result of paying more Import VAT, which translated to higher VAT refunds.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2012/13	-138 820	6.0%	17.1%	4.2%
2013/14	-156 879	13.0%	17.4%	4.3%
2014/15	-162 138	3.4%	16.4%	4.2%
2015/16	-167 056	3.0%	15.6%	4.0%
2016/17	-181 574	8.7%	15.9%	4.1%
<b>2017/18</b>	<b>-191 071</b>	<b>5.2%</b>	<b>15.7%</b>	<b>4.0%</b>

## Debt Book

### Managing taxpayer debt

Total cash collected from overdue debt for the 2017/18 financial year is R62.6 billion, which is an improvement of 19% compared to the cash collected for the previous financial year of R50.6 billion. About R51.7 billion of the cash collected for the 2017/18 year was directly due to the efforts of SARS. The improvement in collections was a result of the revised debt collection strategy focusing on the segmentation of debt into new debt and old debt for effective case management and work-flow management, introducing cash focused KPIs and the outsourcing of older and smaller debt.

SARS's target was to reduce the level of undisputed debt to 7% of revenue collected for the 2017/18 year. However, due to increased difficulty as a result of prevailing adverse economic conditions, the actual achievement was 7.28%, just 0.28% short of the target of 7%.

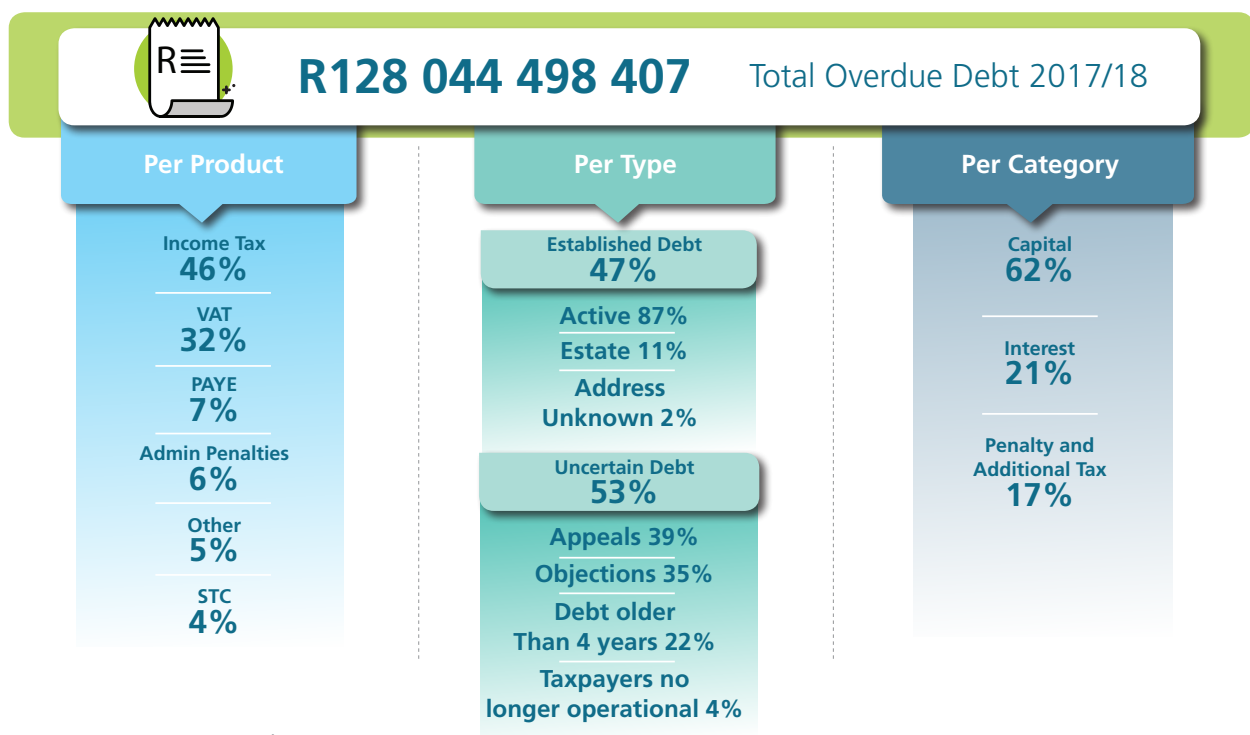
The 2017/18 financial year debt book reporting takes into cognisance the split between established debt (collectable/undisputed – R88.5 billion) and uncertain debt (disputed – R39.5 billion), thus bringing the total debt book for the 2017/18 financial year to R128.0 billion. The total debt book has decreased by R1.2 billion (1%) from R129 billion in 2016/17 to R128 billion at the end of the 2017/18 financial year. This was due to reductions on some tax types, including CIT by

R4.5 billion, STC debt by R4.6 billion, though VAT has slightly increased by R642 million.

Debt under dispute decreased by R10.3 billion from R49.8 billion to R39.5 billion as at 31 March 2018. Disputed debt represents 30.9% of the total debt book.

The write-offs for the 2017/18 financial year amount to R36.5 billion, which is an increase of R26.1 billion compared to the previous financial year, when it was R10.4 billion. Temporary write-off accounts of R35.72 billion or 97.5% of the total debt were written off. The increase in debt written off this financial year was due to six high-value cases approved for temporary write-off to the value of R23.1 billion.

- The manual VAT dispute process was automated with upfront validations, to ensure that the correct dispute type is logged and processed.
- Further changes will enhance the Notice of Appeal process and communication with the taxpayer improving the service to taxpayers.
- Exploring the utilisation of a debt collection module on SAP for a SARS debt collection system is under construction.





## Unaudited Overdue Taxpayer Debt

Unaudited overdue taxpayer debt (receivables) as at 31 March 2018		
	2017/18	2016/17
	Rands	Rands
<b>Segmentation</b>		
<b>Established Debt</b>		
Active	59 944 629 097	53 098 226 748
Address Unknown	1 426 760 812	1 487 726 699
Estate	7 084 800 640	6 752 167 582
<b>Total Established Debt</b>	<b>68 456 190 550</b>	<b>61 338 121 029</b>
<b>Uncertain Debt</b>		
Objections	21 596 422 316	23 559 982 364
Appeals	17 898 818 225	26 286 831 315
<b>Debt Under Dispute</b>	<b>39 495 240 541</b>	<b>49 846 813 679</b>
Debt Older than 4 years	17 873 414 215	15 123 895 791
Taxpayers no longer operational	2 219 653 101	2 968 775 881
<b>Total Uncertain Debt</b>	<b>59 588 307 857</b>	<b>67 939 485 351</b>
<b>Total Overdue Taxpayer Debt</b>	<b>128 044 498 407</b>	<b>129 277 606 380</b>
<b>Comprising</b>		
Capital	79 417 703 800	80 568 753 690
Additional Tax	20 646 025 923	19 150 999 869
Penalty	2 446 893 122	2 406 223 742
Interest	25 533 875 563	27 151 629 080
<b>Total Overdue Taxpayer Debt</b>	<b>128 044 498 407</b>	<b>129 277 606 380</b>
<b>Administered Tax Analysis</b>		
Income Tax	57 850 830 633	58 902 801 314
Individuals	22 774 856 168	19 528 012 064
Trusts	1 163 798 050	906 002 519
Companies	33 912 176 415	38 468 786 731
PAYE	11 510 617 704	9 129 408 788
VAT	42 017 862 319	41 376 101 991
STC	1 051 702 498	5 660 506 502
Diesel	354 098 441	254 887 400
SDL	1 508 510 252	1 336 845 161
UIF	1 993 459 382	1 825 386 923
Customs	1 720 340 145	1 569 028 911
Excise	249 229 169	136 277 718
Administrative Penalties	8 586 183 461	7 924 903 409
Estate Duty	166 986 863	201 603 041
Small Business Amnesty Levy	9 283 645	16 371 535
Dividends Tax	1 006 510 486	924 600 276
Donations Tax	18 883 409	18 883 409
Transfer Duty	-	-
<b>Total Overdue Taxpayer Debt</b>	<b>128 044 498 407</b>	<b>129 277 606 380</b>



## Unaudited Credit Book

Unaudited taxpayer credits (payables) as at 31 March 2018		
	2017/18	2016/17
	Rands	Rands
Income Tax	-29 363 852 592	-24 395 895 399
Unallocated payments	-10 865 412	-10 781 264
Returns not received	505 187 713	543 025 717
<b>Income Tax</b>	<b>-28 869 530 291</b>	<b>-23 863 650 946</b>
PAYE	-169 676 533	-221 564 088
Unallocated payments	-2 994 293 064	-1 666 371 152
Returns not received	25 488 025	36 912 127
<b>PAYE</b>	<b>-3 138 481 573</b>	<b>-1 851 023 112</b>
VAT	-30 385 217 532	-30 830 903 720
Unallocated payments	-1 322 957 063	-616 856 684
Returns not received	750 842 476	2 805 391 612
<b>VAT</b>	<b>-30 957 332 119</b>	<b>-28 642 368 792</b>
UIF	-66 508 759	-77 317 527
Returns not received	14 735 386	20 853 791
<b>UIF</b>	<b>-51 773 373</b>	<b>-56 463 736</b>
SDL	-37 922 573	-46 875 540
Returns not received	8 244 860	12 425 872
<b>SDL</b>	<b>-29 677 713</b>	<b>-34 449 668</b>
Diesel	-3 491 695 671	-1 475 529 537
Returns not received	8 381 649	35 769 328
<b>Diesel</b>	<b>-3 483 314 023</b>	<b>-1 439 760 210</b>
STC	-12 630 800	-10 654 128
Unallocated payments	-56 047 873	-56 042 180
Returns not received	420 466	1 321 248
<b>STC</b>	<b>-68 258 208</b>	<b>-65 375 059</b>
Estate Duty	-3 360 400 057	-2 598 094 613
Returns not received	3 360 400 057	2 598 094 613
<b>Estate Duty</b>	<b>-</b>	<b>-</b>
Dividend Tax	-279 692 280	-403 389 239
Unallocated payments	-3 901 298	-3 901 298
Returns not received	25 627 316	101 593 881
<b>Dividend Tax</b>	<b>-257 966 262</b>	<b>-305 696 657</b>
Administrative Penalties	-27 780 710	-76 508 575
Unallocated payments	-966 193	-852 145
<b>Administrative Penalties</b>	<b>-28 746 903</b>	<b>-77 360 720</b>
<b>Small Business Amnesty levy</b>	<b>-4 975 705</b>	<b>-4 773 919</b>
<b>Customs</b>	<b>-49 363 630</b>	<b>-67 074 354</b>
<b>Excise</b>	<b>-15 418 216</b>	<b>-5 395 350</b>
<b>Total Taxpayer Credits</b>	<b>-66 954 838 016</b>	<b>-56 413 392 522</b>

## Targeted Compliance Interventions in High Risk Areas

### Improve compliance, address identified risks and conduct audits

- 591 audits were conducted on large companies, 39 audits relevant to Base Erosion and Profit Shifting, 270 audits on High Net Worth Individuals.
- SMME investigative audit completed 11 229 audit cases, with a total yield of R8.3 billion.
- The success rate is the number of cases completed with a positive net audit result, as a percentage of the total number of cases completed in the case category, with a success rate of 90% achieved on full scope audits, against a target of 80%. A success rate of 73% was achieved on limited scope audits, against a target of 60%.
- Investigative Audit Large Business completed 673 audit cases, with a total yield of R5.5 billion.

### Other tax and customs jurisdictions

- FATCA and OECD Common Reporting Standards (CRS) Penalty solution was implemented in June 2017.
- Country-by-Country (CbC) reporting enables Multinational Enterprises (MNEs) to report on their operations in every country that they operate in. This enables revenue authorities to investigate irregular activities, monitor and eradicate corrupt practices and ensure that multinational companies meet their tax obligations.
- The implementation of the OECD Country-by-Country solution for AEOI was divided into two releases. The first was successfully implemented in December 2017, while the second release is scheduled for the next financial year. The first release enables Multinational Enterprises to submit reports to SARS, whereas the second release facilitates the exchange of data with relevant OECD partner jurisdictions.

### Organisation for Economic Co-operation and Development (OECD) Common Reporting Standards (CRS) for Automatic Exchange of Information (AEOI)

- South Africa was one of the 49 early adopter jurisdictions of the OECD Common Reporting Standard (CRS) in 2017.
- SARS completed the exchange with 36 partner jurisdictions using the Common Transmission System (CTS) platform in September 2017.
- The analysis (on completeness and accuracy) of this data is ongoing as a pilot.
- A few cases covering all SARS regions have been identified and are at different levels of execution, whilst some are in the profiling stage. No audit cases have been completed to date.
- The outcome of these cases will assist in validating the usefulness of the data, and inform SARS's compliance efforts going forward.
- The number of participating OECD jurisdictions will increase to 102 in September 2018, resulting in South Africa's exchange partner list increasing to over 77 jurisdictions.

### Third party data exchange agreements

#### South African Local Government Association (SALGA)

- SARS engaged with the SALGA leadership to identify areas of collaboration, including information sharing and data exchange. As part of a pilot, SARS is working on developing an interface platform to exchange data with the eThekweni Municipality for the purpose of verifying customer's details.

#### Co-operative Governance and Traditional Affairs (COGTA)

- SARS has signed a Memorandum of Understanding (MOU) with COGTA, (sharing of third party data on the verification of the indigent register). As part of implementing the MOU, SARS has also compiled an analysis report of the indigent register and shared that with COGTA.



### Road Accident Fund (RAF)

- SARS has signed an MOU with the RAF to share third party data on, amongst others, payments made to lawyers by the RAF, issues of diesel rebates and benchmarking projects. Implementation of the MOU is in progress.

### Enforcement capabilities

- 411 cases were handed over to the NPA for prosecution during the period under review.
- The NPA prosecuted 88 cases with a success rate of 95%.



### Taxpayer Investigations

Criminal Investigations handed to NPA

**411**

Prosecutions finalised by NPA

**88**

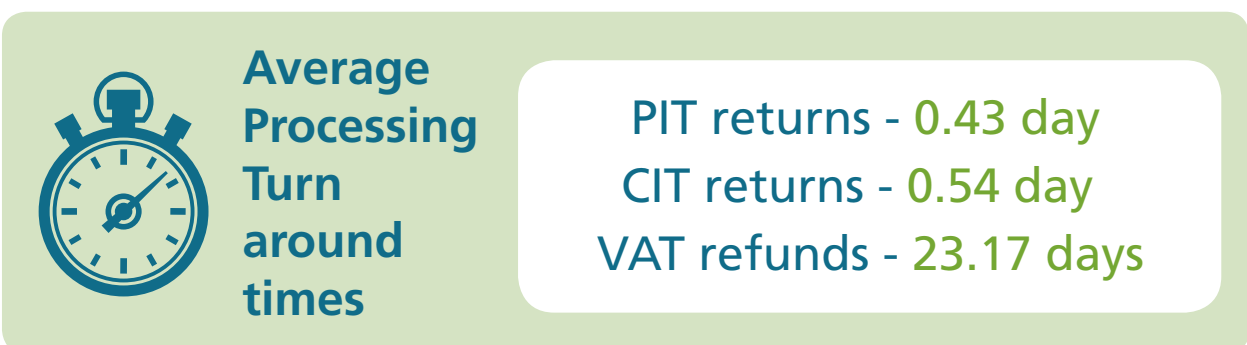
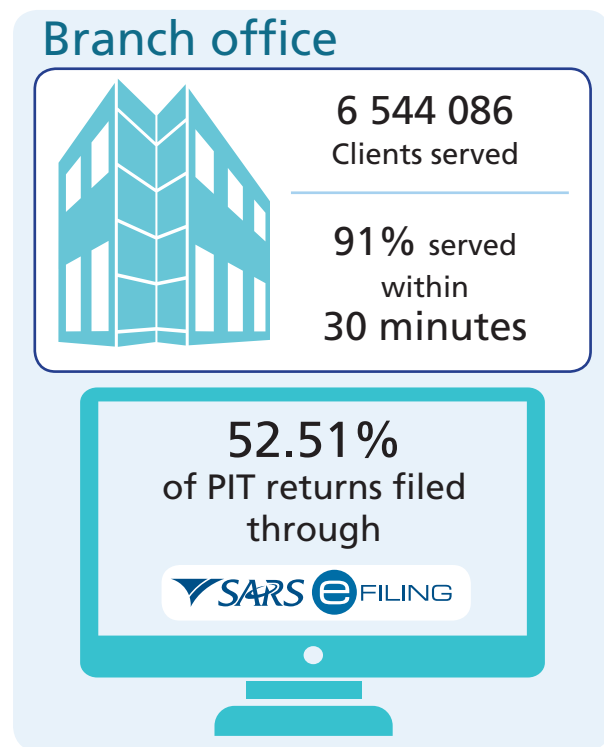
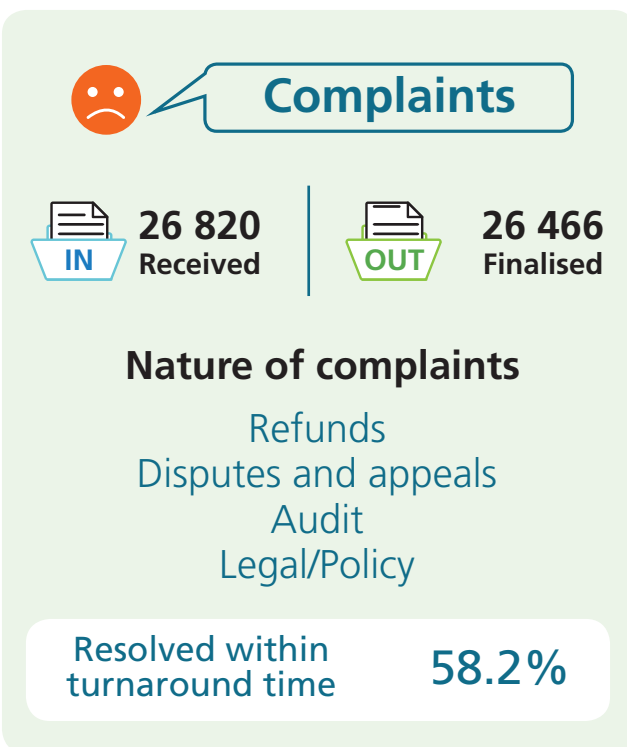
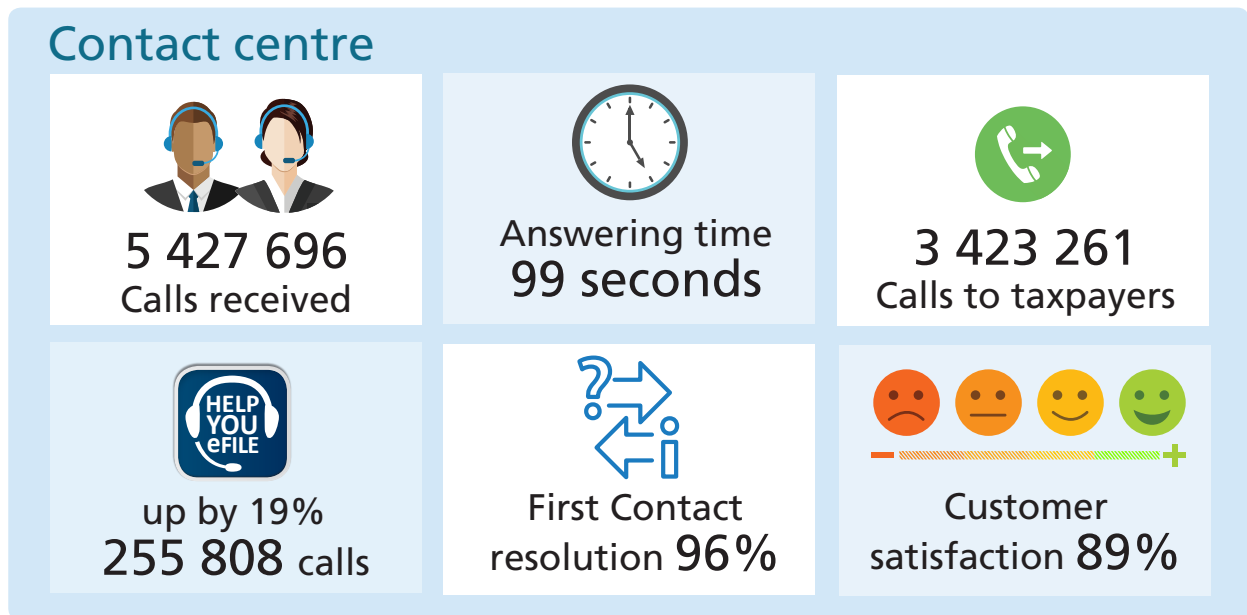
found guilty

**95%**

Strategic Outcome:  
Increased Ease and Fairness of  
Doing Business with SARS

# Outcome THREE

## OUTCOME 3 – Increased Ease and Fairness of Doing Business with SARS





## Reduce volumes of manual activity through automation and digital migration

### Refresh the eFiling platform

- Filing Season 2017/18 PIT/IRP6/EI/Directives and Mobi-Web and Mobi-App system updates were implemented from June to August 2017.
- PAYE Interim Filing Season (Legislative and Employment Tax Incentive (ETI) change) and Phase 2 (automated refund engine and risk engine changes) were successfully implemented.
- The eFiling admin tool password reset functionality was extended to other modules without compromising taxpayer security.

### Automation and validation

- Mobile business services enhancements, including out-of-branch data gathering for purposes of registration, campaigns and investigations, were implemented in May 2017.
- SARS elevated the auto-registration capability, introduced the ability to capture data for PAYE and VAT registration and put an upfront identity verification step before registration.
- The PAYE Filing Season (legislative and ETI change) and PAYE automated refund risk engine changes were successfully implemented.
- Data matching, legislative changes and standardisation across third party data for medical scheme contributions and insurance payments were successfully implemented in September 2017.
- CIT and Trusts Filing Season for the 2017 year of assessment (legal changes) were implemented in February 2018.

### Tailored education and outreach programmes

- 959 small business interventions were conducted, consisting of 265 outreach interventions and 694 tailored education programmes.
- These SMME education programmes were attended by 48 840 taxpayers.
- Campaigns held at small business premises assisted taxpayers with eFiling and e@syFile technical queries and registrations.
- The service channel network is to deliver an easy, convenient and accessible service.
- The new SARS Service Charter will be implemented in the 2018/19 financial year.
- Zwonaka Service Excellence index achieved a 93.97% score in the period under review.

### Mobile Tax Units

- 262 222 taxpayers were engaged through the Mobile Tax Units (MTUs) during the period under review.
- Two new Mobile Tax Units (MTUs) procured to improve taxpayer experience and convenience, were added.
- SARS has a total of 21 operational MTUs.





### Direct Channels

- 6.5 million taxpayers were served in our branches compared to 6.7 million taxpayers the previous year.
- 9% caller abandonment rate was achieved by the SARS Contact Centre during the period under review.
- Footprint expansion: The Bloemfontein Central Government Building was occupied, and branch office refurbishments will continue.
- The following One Stop Shops (OSS) were launched: Western Cape, operated by WESGRO, Kwa-Zulu Natal, operated by Trade and Investment KZN, as well as Gauteng, operated by the Gauteng Growth and Development Agency.

### Complaints

- 2 113 Office of the Tax Ombud complaints were received.
- Complaints received increased by 14.7% year-on-year (YoY).
- Finalised complaints improved by 17.6%, with 58.2% finalised within turnaround times.
- The Complaints inventory carried forward remains high at 5 400, of which 532 cases were from previous years.
- 82.9% of total complaints received were finalised.
- 58.2% of cases were finalised within turnaround times, 10.2% above the annual target of 48%.
- The bulk of complaints were received via the following channels: eFiling (68%), branch (24%), Office of the Tax Ombud (OTO) (5.6%) and Interactive Voice Response system (2.4%).
- The increase in complaints can be partly attributed to the OTO's Refunds Investigation Report, which increased awareness among taxpayers due to the publicity the report received.



**6.5 million**  
taxpayers were  
served in our  
branches



**OUT**

**82.9%**  
of total  
complaints  
received were  
finalised

Strategic Outcome:  
Increased Cost Effectiveness  
and Internal Efficiencies

# Outcome FOUR



## OUTCOME 4 – Increased Cost Effectiveness and Internal Efficiencies

### Data driven decision making



108 PULSE  
dashboards



+700 users  
on Management level

Data  
protection  
programme  
implemented



e-Sourcing  
Fully adopted and used to  
facilitate procurement



Cost of Revenue Collection 0.89%

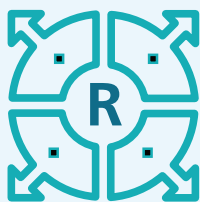
Target 0.95% – 1.00%



New SARS  
Governance  
Framework  
approved  
19 February 2018



84 Building  
condition  
assessments  
completed



R value of  
SARS External  
Procurement  
Expenditure

R2.7 billion

### BBBEE Procurement

Black owned  
entities

43.18%

Qualifying Small  
enterprises

16%



Black women  
owned entities

7.27%

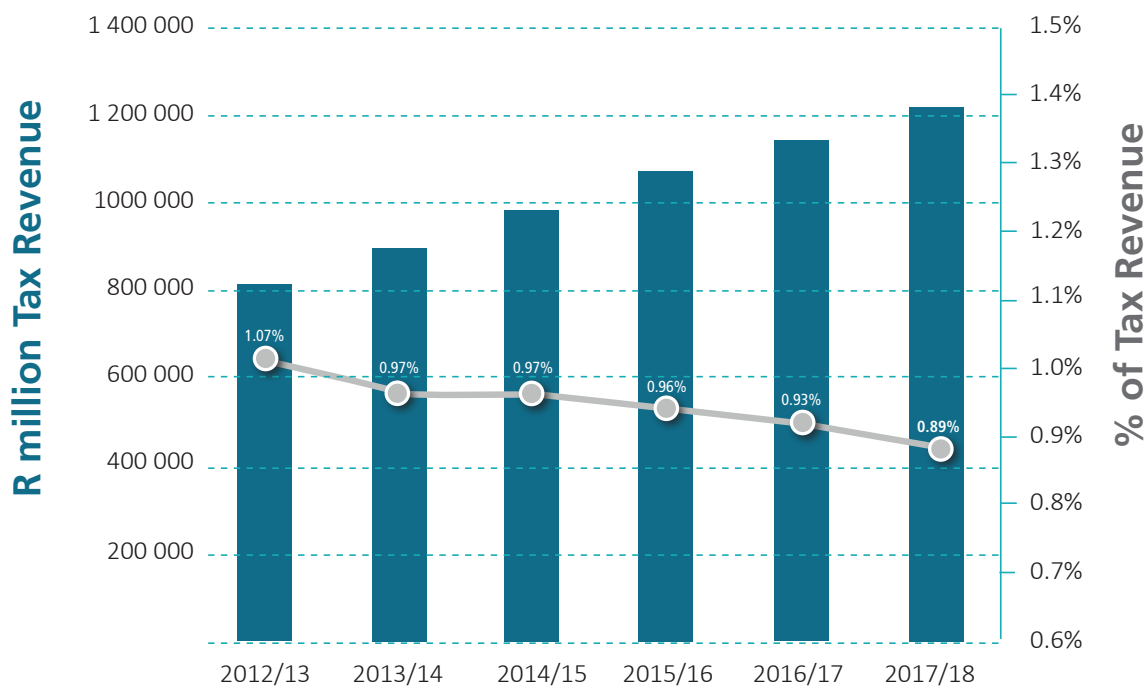
Emerging micro  
enterprises

25%

## Cost of revenue collection

SARS's cost-to-tax-revenue ratio remains close to the international benchmark used by revenue authorities around the world. The ratio was kept slightly below the 1% international benchmark at 0.89% during the 2017/18 financial year. Growth in operating costs was contained by greater efficiency, tighter controls and better rates from service providers. During the past six years, the ratio has ranged around the 1% mark. It moved from 1.07% in the 2012/13 financial year to 0.89% in the 2017/18 financial year.

This consistent performance shows that SARS has contained costs, while increasing the amount of revenue it has collected. The SARS cost-to-tax-revenue ratio does not take into account collections of non-tax revenue on behalf of other institutions. Such revenue includes RAF levies and UIF contributions, as well as Mineral and Petroleum Resource Royalties (MPRR) collections. If these amounts were included in the cost of revenue collections, then the cost-to-tax-revenue would have been even lower.





### **Improve information communication technology capability**

- Legacy systems and databases, as well as the development environment, were upgraded and maintained on a quarterly basis.
- The migration from the mainframe is a multi-year project and GRAP migration activities up to 2021 will reduce the mainframe footprint over time.
- A data loss prevention contract was signed and the restriction of write access to external storage devices was implemented in February 2018.
- The Virtual Private Network (VPN) facility allows users to securely connect from remote locations to the SARS network.
- The SARS Human Resources system for employees was upgraded to add more user services.

### **Prudent financial management**

#### **Generally Recognised Accounting Practice (GRAP)**

- The migration of the remaining revenue products is in progress, but will be preceded by the implementation of a new technology platform

and the Mineral and Petroleum Resources Royalty (MPRR) tax product. These will set the foundation for all subsequent revenue products.

- The new technology platform and MPRR were planned to be implemented in 2017/18, however this delivery was revised to 2018/19 due to delays in on-boarding an implementation partner and availing the new technology platform.
- All subsequent revenue products are planned for implementation by 31 March 2021, with the following two years planned to provide a comparative base towards the attainment of GRAP compliance by 31 March 2023.

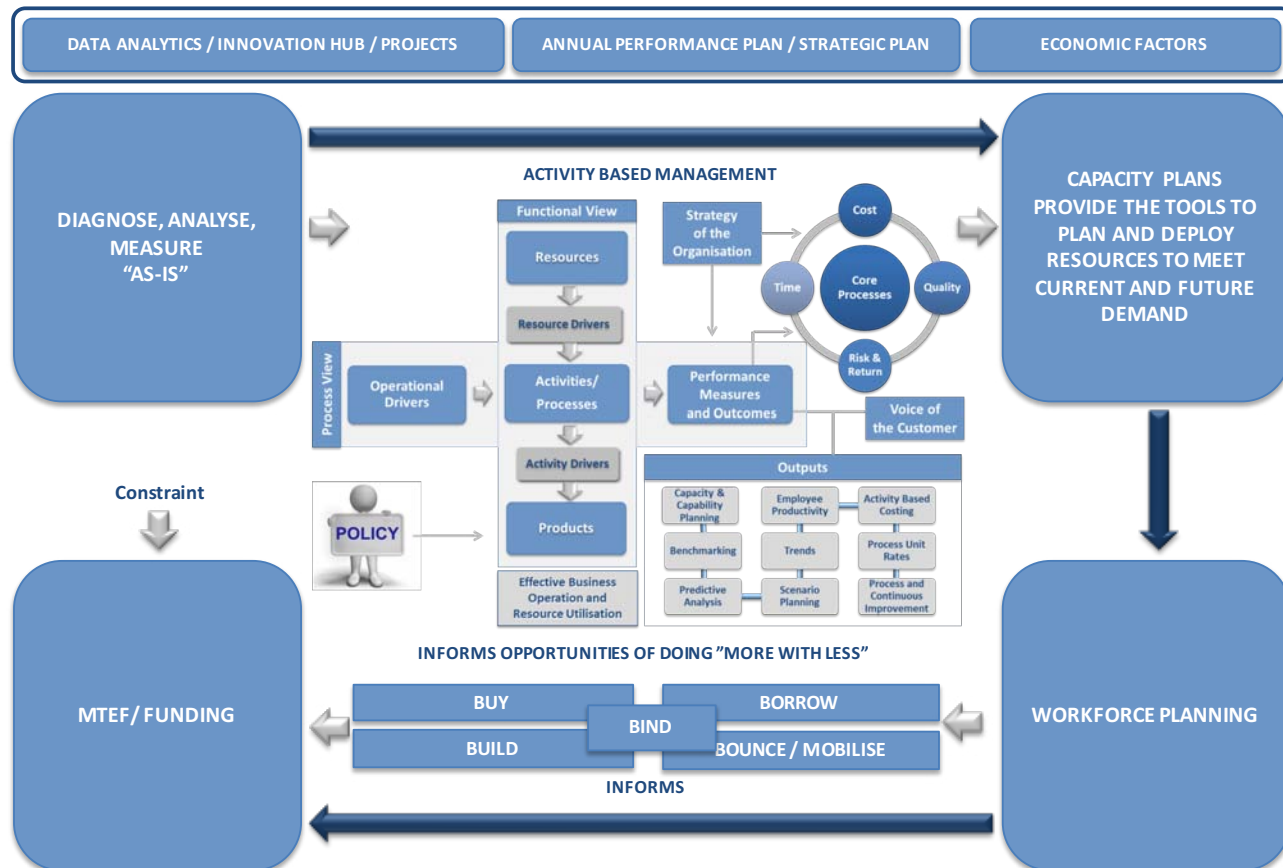
#### **Procurement**

- E-Sourcing was implemented on 27 October 2017 and is fully adopted and used by business to facilitate the procurement process.
- The integration with the National Treasury Central Supplier Database (CSD) has resulted in tax compliance amongst SARS vendors.
- 84 building conditions assessments reports were concluded to ensure compliance with Health and Safety regulations.

## Enterprise Capacity Management

Enterprise Capacity Management developed and executed a uniformed and integrated framework to enable the management of enterprise capacity and performance measurement within the organisation,

with the understanding that performance and capacity management ultimately informs the workforce plan by aligning resources to the strategic objectives.



This included the identification of key performance measurement opportunities in support of long range planning in “doing more with less”, while ensuring that organisational processes have the required capacity and capabilities to fulfil its mandate.

Some key milestones achieved in support of divisional outputs included:

- Designed and implemented a Performance and Resource Planning Policy.
- Developed activity based management models, using the best practice methods as set out by the Consortium for Advanced Management International Institute (CAM-I).
- Institutionalised and created awareness of performance measurement and capacity planning, through the operations management development training programme as the departure point for effective resource allocation.
- Successfully linked the budget to the annual strategic objectives.

- Integration of capacity plans into the organisational workforce plan, taking into consideration current performance, modernisation initiatives, strategy development and available funding.

Some divisional outputs include:

- The identification of non-value adding activities.
- The identification of capability gaps within the organisation.
- The development of a mobilisation strategy to ensure a balanced organisation.
- Process improvements to ensure operational efficiencies.
- Improved productivity levels across the organisation.
- The publication of a quarterly enterprise capacity report.

To date, Enterprise Capacity Management covered 84% of the organisation, with the journey continuing to ensure coverage of the entire organisation.

## Build a Data Analytics Capability

SARS is in the **second year of the journey to become data-driven** as part of its five year strategic aspirations. Output associated with 7 of the 9 analytical maturity levels are evident:

 <p><b>Infographic design, visualisation and data storytelling</b> enhanced outputs to assist in <b>landing SARS's message</b></p>	<h3>Visualisation and Business Optimisation</h3> <p>Data products and visualisation are delivered in a manner that provides one version of the truth. Insights are aimed at driving decision-making, business planning, optimisation and the strategic direction of the organisation.</p>
 <p><b>Seven predictive models</b> operational to <b>inform the future</b>, based on taxpayer behaviour history</p>	<h3>Predictive Analytics</h3> <p>Business questions regarding what happened and why did it happen are being satisfied on a daily basis. The focus shifted to scenario modelling, and asking what will happen or what should or could happen.</p>
 <p><b>30 in-depth analytical analyses</b> completed to <b>understand business performance</b> at micro level</p>	<h3>Advance Analytics</h3> <p>These analyses assist in creating a common base for understanding and encourage data conversations to analyse and improve performance.</p>
 <p><b>108 PULSe dashboards</b> empower more than <b>700 users</b> on management level and nerve centers with <b>information at their fingertips</b></p>	<h3>Generic Analytics</h3> <p>PULSe Dashboards, as a data product, has grown from strength to strength. It simplifies and streamlines consumption of organisational information through a single version of the truth, across all devices. The health of SARS can be monitored 24/7 and information is refreshed on a near real time or hourly frequency.</p>
 <p><b>2 840 tailored information requests and reports</b></p>	<h3>Ad-hoc Reports</h3> <p>Data Analytics continues to modernise, maintain and support the Integrated Business Register that enables integrated analysis of taxpayers. More than 3 million profiles are accessed per annum to enhance taxpayer understanding. Eleven 3rd party data sources are based within the data warehouse, allowing for enhancement of views.</p>
 <p><b>Monitored performance</b> and enabled <b>timeous decisions</b> to redirect resources <b>through 845 reporting solutions</b></p>	<h3>Standard Reports</h3> <p>The next wave of innovation in data products has been tested in a proof of concept. Information Central – an electronic hub that allows the user to go from high level monitoring through PULSe to trends, taxpayer drill through, comparisons, forecasts, scenarios and analytical models – all in one interface.</p>
 <p><b>Reliable data factory</b> enabling <b>data products</b></p>	<h3>Raw Data</h3> <p>Data products are enabled and distributed on the backbone of integrated, well-managed and maintained data. Optimising the business intelligence data layer remains a daily focus, resulting in 95% of all reporting available by 8h00 in the morning.</p>



Strategic Outcome:  
Increased Public Trust and Credibility

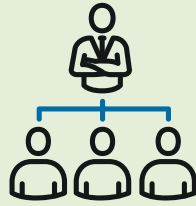
# Outcome Five

## OUTCOME 5 – Increased Public Trust and Credibility



Employee Engagement  
63.60%

Target  
66.00%



Leadership Effectiveness Index  
88.08%

Target  
88.00%

Electronic DNA  
Taxpayer verification solution

53 Branches  
MTUs  
Tax Exemption Unit

Successfully implemented



Voluntary Disclosure Programme



2 282 cases finalised

R5.45 billion collected



Internal Investigations

351 incidents reported  
336 cases finalised



Internal Disciplinary Cases

70 internal investigations referred for disciplinary initiation

85 internal disciplinary cases finalised

## Maintain high levels of public trust and credibility to sustain tax compliance

- The Public Opinion Survey was not conducted for the 2017/18 financial year due to the termination of the contract with the previous service provider (due to a breach of contract).
- The process of appointing a new service provider was delayed owing to a conflict of interest that arose during the Bid Evaluation Process and during the final stages of the procurement process.
- A new procurement process could not be concluded, and the Public Opinion survey could not be completed before the end of the 2017/18 financial year.
- The SARS Stakeholder Engagement Strategy was approved in July 2017.

## Continue to adopt a zero-tolerance approach to fight fraud and corruption

- Enhancements to the Tax Compliance Status (TCS) system took place in May, September and December 2017.
- The electronic DNA (e-DNA) and Taxpayer Verification (TPV) solution was successfully implemented at 53 tax branches, and extended to other taxpayer facing units, such as the Mobile Tax Units (MTUs) and the Tax Exemption Unit (TEU).
- SARS has maintained its fraud and anti-corruption hotline (0800002870), where taxpayers and employees may call and report suspected non-compliance, as well as a link on its website (intranet and internet) which enables people to complete what is known as a Report of Suspected Non-Compliance (RSN).
- The reporting may be done anonymously in order to offer protection to the person making the

disclosures. The RSNs are independently evaluated by a team within a dedicated Unit, after which, they are referred to the relevant SARS units for investigation.

- All cases reported and approved are investigated to either prove or refute the allegations. Where cases relate to internal breaches and/or offences, these are attended to through the disciplinary process. Where there has been criminal conduct, the cases are reported to the South African Police Service (SAPS) with SARS providing assistance in the criminal case.
- The RSN system is currently undergoing an enhancement process to enable improvements to the current process.
- 351 incidents were reported of which 347 were referred for investigation. A total of 336 investigations were finalised in the 2017/18 financial year.
- A 99% declaration rate by employees and suppliers/contractors of all conflict of interests was achieved during the 2017/18 financial year.

### Sanctions during disciplinary/investigation phase

Corrective Counselling	9
Resignations	27
Verbal warning	1
Written warning	4
Final written warning	15
Final written warning and suspension without pay	7
Dismissals	39

### Criminal cases

Cases accepted by NPA	28
Cases finalised by NPA	15
Found guilty	15
Nolle prosequi	1

## International Relations

SARS continued to build on its reputation internationally through its various activities – internationally, regionally and bilaterally.

### Multilateral Taxation

SARS continued to participate in the work of the Organisation for Economic Co-operation and Development's (OECD) Committee on Fiscal Affairs (CFA), its various working parties, as well as the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and Forum on Tax Administration (FTA). The Inclusive Framework sets out to achieve the BEPS minimum standards in over 110 jurisdictions. The FTA's core work is covered in its Offshore Compliance Programme, Large Business Programme, Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC), Advanced Analytics Programme, E-Services and Digital Programme and Capacity Building Network. The FTA's work programme is overseen by a Bureau of 13 Commissioners from participating revenue bodies, including the Commissioner for SARS. SARS continues to benefit from its Memorandum of Co-operation (MOC) with the OECD. Under this agreement, technical seminars were conducted on the Attribution of Profits to Permanent Establishments and Auditing Transactions of the Digital Economy.

### Global Forum

SARS is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), the premier international body for ensuring the implementation of internationally agreed standards of transparency and exchange of information in the tax area. South Africa is an early adopter of the new international standards for Automatic Exchange of Information (AEOI), which include both the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standards (CRS). In September 2017, 49 countries took part in the annual AEOI to assist with domestic tax compliance, and it is anticipated that the number of participating countries will grow to 102 by September 2018.

### ATAF

Within the region, SARS continued to participate and support the activities of the African Tax Administration Forum (ATAF), both in its governance structures and technical working groups and activities. SARS played

an important role in the publication of the African Tax Outlook, which is the compilation of data by all participating African countries. The compilation of Africa's tax data is the first for the continent. In addition, following the development and publication of the toolkit for Transfer Pricing Risk Assessment in the African Mining Industry, a workshop on the topic was convened to elaborate on the toolkit.

### BRICS

SARS actively participated in the BRICS Tax and Customs meetings convened under the chairmanship of China. Highlights included the signing of the BRICS Memorandum of Co-operation in Respect of Tax Matters and a Strategic Framework of BRICS Customs Co-operation. Both these instruments will deepen co-operation between BRICS countries. As part of South Africa's chairmanship of BRICS, SARS co-hosted with ATAF and the Global Forum a joint seminar on the exchange of information on request and Beneficial Ownership. The seminar served as a BRICS outreach activity, with representatives from 24 countries attending the meeting.

### WCO

SARS continued to advance and support issues on the international customs agenda, which seek to enhance customs administration globally, leverage relations to support the development of SARS's internal capabilities and facilitate the exchange of customs information on request, under international instruments.

SARS continued to participate in the work of the World Customs Organization (WCO) and WCO East and Southern Africa (WCO ESA). SARS's contribution mainly centred on key global customs issues, governance issues within the WCO ESA and Regional Offices for Capacity Building (ROCB).

### SACU

Work in SACU revolved around the WCO SACU CONNECT Project, a trade facilitation project focussing on Information Technology (IT) interconnectivity, the Preferred Trader Programme (PTP), risk management and legislative review, as well as Commission meetings and Interdepartmental preparatory work streams. Other than the activities undertaken under each component of the CONNECT project, highlights included the phase 3 mission conducted by the WCO experts to assess SARS's customs modernisation



initiatives, a Preferred Trader Programme (PTP) gap analysis mission by the WCO to evaluate SARS's PTP in terms of its compliance to international standards, and readiness for the SACU PTP pilot and mutual recognition.

### African Union and SADC

In addition, SARS also participated in the African Union's Commissioners-General Forum, as well as SADC's Strategic and Policy Advisory Group and the Sub-Committee on Customs Co-operation.

SARS continued to actively deepen its bilateral relations through a number of engagements with its counterparts from the continent and beyond on both tax and customs matters. Focus areas included co-operation in the area of Exchange of Information, Capacity Building, Technology, High Net-Worth Individual, BEPS, Enforcement, Customs and Excise, VAT Refunds, as well as the negotiation of Memorandum of Co-operation (MOC) with partner countries. Amongst others, bilateral engagements were held with the Angolan General Tax Administration, the General Administration of Customs of the People's Republic of China, Her Majesty's Revenue and Customs, the Kenya Revenue Authority, the Lesotho Revenue Authority, the Malawi Revenue Authority, the Swaziland Revenue Authority, the United States Customs and Border Protection, as well as the Zambia Revenue Authority.

### Skills development

In support of South Africa's foreign policy objectives, SARS continued to actively support programmes of skills development, knowledge sharing and capacity building. SARS's capacity building programmes included hosting 18 incoming benchmarking visits from 93 officials from 12 countries to South Africa. These engagements focused on areas such as performance management, VAT, taxation of the mining sector, risk management, data warehousing, High Net Worth Individuals, voluntary disclosure, innovation management, digital and forensic audits, e-commerce, human resource management, customs centralised processing, tax courts, alternative dispute resolution and revenue tracking.

SARS hosted a capacity building event on Digital and Forensic Audits which was attended by 27 officials from 13 countries. This event provided a platform for SARS to showcase its capabilities and to share experiences and collectively tackle challenges as it moves into the 4th industrial revolution.

### Other

SARS co-operated with the Delegation of the European Union (EU) to South Africa on regional capacity building programmes on Domestic Resource Mobilisation (DRM) and Revenue Analysis, Forecasting and Reporting.

SARS furthermore engaged with the OECD/United Nations Development Programme's (UNDP) joint Tax Inspectors Without Borders (TIWB) programme, as well as with the International Monetary Fund (IMF) on the development of Transfer Pricing training modules.

## Annual Performance Report

The performance measurement and reporting philosophy at SARS remains aligned with the South African Government's outcomes-based approach. The outcomes-based approach points out what is to be achieved, how it will be achieved and how entities will know whether they have achieved what was intended or not. This approach goes beyond the output-approach in that it plots the impact of the outputs, which should resonate with the intended objectives. The SARS 2016/17 – 2020/21 Strategic Plan provides the basis for the organisation's outcomes-based performance management and planning processes. The SARS Strategic Plan itemises its short-term, medium-term and long-term objectives, and articulates the associated action plans to achieve the objectives. From the Strategic Plan, SARS develops an Annual Performance Plan, annual budgets and annual performance measures.

In developing and setting out performance measures, SARS continues to look for new ways to reflect and report performance in a more meaningful manner. Performance measures and their requisite targets are largely informed by legislative requirements, best

practice, past performance, resource constraints, the SARS Service Charter, the four perspectives of the Balanced Scorecard, namely Financial, Customer, Internal Process and Learning and Growth, as well as the SMART (Specific, Measurable, Achievable, Realistic and Time-bound) principle. Subsequently, SARS updated the performance targets and baselines of some of its strategic measures in the year under review.

This also reflects the approach of how SARS is transitioning the organisation to the ultimate desired end state of outcomes-based performance, measurement and reporting.

This section displays SARS's achievements for the period 1 April 2017 – 31 March 2018. For each strategic measure, the achievement is measured against the targets set in SARS's Annual Performance Plan for the 2017/18 financial year and the 2016/17 achievement (the baseline). The intention of each measure is stated, as well as comments on the calculated variances.

### SARS's five Strategic Outcomes:

- 1 Outcome 1 - Increased Customs and Excise Compliance
- 2 Outcome 2 - Increased Tax Compliance
- 3 Outcome 3 - Increased Ease and Fairness of Doing Business with SARS
- 4 Outcome 4 - Increased Cost Effectiveness and Internal Efficiencies
- 5 Outcome 5 - Increased Public Trust and Credibility

## Outcome 1 - Increased Customs and Excise Compliance

### Customs and Excise revenue collected



Intention	To track the revenue emanating from customs and excise activities, and is one of the proxies for measuring customs and excise compliance.
Achievement	R326.75 billion (audited)
Target	As per agreed target with Minister of Finance R328.24 billion (Revised Estimate for 2017/18)
Variance	-R1.49 billion
Baseline	R308.37 billion

**Reason for variance:** The Customs and Excise revenue collected resulted in a deficit of R1.49 billion. Import VAT was lower than the revised estimate mainly due to contractions in chapters such as aircraft and parts, as well as medical equipment. Fuel Levy also contributed to the deficit due to generally lower fuel levy collections.

### % of trade attributable to Preferred traders



Intention	To track the share of the overall trade by traders that have been audited for the preferred trader programme.
Achievement	25.49%
Target	20.00%
Variance	+5.49
Baseline	28.09%

**Reason for variance:** For the financial year, a total of 30 275 729 lines were analysed, indicating that 7 717 438 lines were derived from potential preferred traders. Audits are done on clients to determine their potential preferred trader status, and in total, 289 potential preferred traders were audited since the inception of the Programme, of which 55 received accreditation status thus far.

### % of goods targeted for the purpose of detecting under-declarations



Intention	To track efforts put by SARS in uncovering under-declarations of goods. The successful introduction and implementation of the Customs Risk Engine has resulted in a significant improvement in our ability to detect under declarations/ misclassification of goods and prohibited and restricted goods.
Achievement	6.60%
Target	13.00%
Variance	+6.40
Baseline	13.63%

**Reason for variance:** The original target was calculated on direct imports only, but it was then noted that the calculation must include all original declarations types, i.e. direct imports, ex-warehouse imports, exports and excise. This resulted in a variance of 6.4%.

The criteria used for determining the 2017/18 actual achievement differs from the criteria used in determining the baseline, i.e. the actual achievement for 2016/17. These changes were necessitated by the refinement/adjustment to the calculation.

### % Compliance to Excise Framework



Intention	To track and monitor the Excise audits completed against the Excise Plan.
Achievement	92.03%
Target	80.00%
Variance	+12.03
Baseline	108.02%

**Reason for variance:** Excise completed 2 332 audits during the financial year. The close monitoring and management of resources and inventory during the year enabled SARS to finalise more audits. The major focus area was Diesel refunds, which constituted 47% of the total audits completed.



### Interfront Governance - Unqualified report by Auditor-General



Intention	To assess SARS's commitment to maintain and promote good governance in the organisation. This measure seeks to monitor Interfront's compliance to all of Government's statutory requirements.
Achievement	Clean Audit Report
Target	Clean Audit Report
Variance	0.00
Baseline	Clean Audit Report

**Reason for variance:** The Auditor-General audit report for Interfront is a clean audit report.

## Outcome 2 - Increased Tax Compliance

### Total revenue (excluding Customs and Excise revenue) collected



Intention	To track revenue emanating from all tax-generating activities, excluding revenue from customs & excise activities, and is one of the proxies for measuring tax compliance.
Achievement	R889.71 billion (audited)
Target	As per agreed target with Minister of Finance R889.07 billion (Revised Estimate for 2017/18)
Variance	+R0.64 billion
Baseline	R835.71 billion

**Reason for variance:** The total revenue (excluding Customs and Excise revenue collected) resulted in a surplus of R0.64 billion. Taxes on Properties were higher than the revised estimate, mainly due to an over collection in Donations and Security Transfer Taxes.

### Debt Book as a % of revenue



Intention	To monitor the growth in the total debt book relative to the total revenue that SARS collects.
Achievement	7.28% (audited)
Target	7.00%
Variance	-0.28
Baseline	6.94%

**Reason for variance:** The Debt book has decreased marginally by R1.2 billion since the beginning of the financial year. SARS is experiencing increased difficulty with the collection of overdue debt due to tough economic conditions. Undisputed debt increased by 11.5% and the disputed portion of the debt book, which constitutes 31% of the debt book, decreased by 21% since the beginning of the financial year.

### % PIT payment compliance



Intention	To track and monitor the compliance of individual taxpayers in settling their gross PIT payment obligations in full and on time.
Achievement	44.28%
Target	50.00%
Variance	-5.72
Baseline	44.99%

**Reason for variance:** The economic conditions and low focus on enforcing the payment of low value debt has contributed to the continued non-compliance behaviour. Disposable income of individuals is affected by the current economic conditions, and they are therefore unable to meet their financial obligations on time. Outsourcing of debt and improved communication strategies should have the effect of encouraging taxpayers to file and pay on time.



## % PIT filing compliance



<b>Intention</b>	To track and monitor the filing compliance of individual taxpayers with their filing obligations during a year of assessment.
<b>Achievement</b>	94.00%
<b>Target</b>	92.00%
<b>Variance</b>	+2.00
<b>Baseline</b>	91.14%

**Reason for variance:** PIT filing compliance improved from the previous year. This could be attributed to Filing Season campaigns and changes in the economic conditions, leading to dependence on tax refunds. Additional efforts on following up on outstanding returns and prosecution of non-compliant taxpayers should have a positive impact on filing behaviour.

SARS observed outstanding compliance behaviour where 3rd party data was used to drive compliance, making it easier to comply. The best example is PIT Filing Season for non-provisional taxpayers, where tax returns are pre-populated with information received from banks, employers, medical aid schemes, as well as insurance companies (Middle 2 columns).

From the table below, it is however clear that there is a segment of the PIT register that is either no longer active, in the process of de-registration, or not traceable through 3rd party data. This segment will be a matter of focus in the new reporting period (Left-hand 2 columns).

In the interest of transparency, SARS also included a separate column to indicate the filing compliance of provisional taxpayers during the reporting period, however, data was only stripped out of the provisional taxpayer universe, from 2016/17 onwards (Right-hand 2 columns).

PIT Filing Compliance	On Total PIT Register		On non-provisional Filing Season submissions		On provisional submissions	
	Returns Required	Compliance %	Returns Required	Compliance %	Returns Required	Compliance %
FY 2015/2016	3 164 931	69.95%	4 198 773	92.16%	-	-
FY 2016/2017	3 252 405	70.09%	4 565 051	91.14%	352 546	87.5%
FY 2017/2018	3 069 197	<b>71.98%</b>	4 319 747	<b>94.00%</b>	368 957	<b>88.4%</b>



## % CIT filing compliance

Intention	To track and monitor the compliance of registered companies with their filing obligations.
Achievement	38.26%
Target	52.50%
Variance	-14.24
Baseline	40.97%

**Reason for variance:** Currently, there are no administrative penalties imposed for companies that are not filing tax returns on time (compared to PIT), therefore there is an absence of effective enforcement which would serve as both punishment to those not complying and as a deterrent to those considering not complying. SARS is currently in the process of implementing administrative penalties for CIT. Companies with outstanding returns i.e. returns not filed on time, may also be criminally prosecuted. Due to the enormous burden on the justice system, with competing high priority cases, this avenue was not actively pursued previously. SARS is currently actively prosecuting companies with outstanding returns. Companies that envisage that they are not in a refund position are reluctant to file their returns on time, further reducing the on time filing compliance.

SARS continued on its journey to clean-up its register and is working with CIPC to align the rules and processes for de-registration at both institutions. However, due to anomalies which include fraudulent registrations and illegitimate attempts for de-registrations, as well as uncertainty around the economic activity of some companies, SARS took a conservative approach and decided not to conclude this process until we have obtained a higher degree of assurance.

It was discovered, for instance, that companies classified as inactive for CIT purposes, submitted VAT returns for purposes of obtaining refunds. SARS subsequently published new rules in the Government Gazette for CIT Filing, which became effective 1 April 2018.

In the interest of transparency, SARS decided to publish two views to highlight the magnitude of the challenges experienced, both from a perspective of the state of the CIT Register, and more importantly, from a CIT Compliance perspective.

CIT Filing Compliance	On current CIT register		On economically active CIT register	
	Returns Required	Compliance %	Returns Required	Compliance %
FY 2015/2016	3 448 708	10.14%	859 607	39.59%
FY 2016/2017	3 949 516	9.78%	936 626	40.97%
FY 2017/2018	3 420 803	<b>11.14%</b>	979 724	<b>38.26%</b>



## % CIT payment compliance



Intention	To track and monitor the extent to which assessed corporate taxpayers are settling their CIT gross payment obligations in full and on time.
Achievement	66.93%
Target	72.50%
Variance	-5.57
Baseline	67.90%

**Reason for variance:** SA economic growth was characterised by slow growth, recession and rating downgrades. This has placed South African businesses in significant distress, which resulted in lower on time payment compliance. In this environment, companies opt to delay tax payment for cash flow purposes to ensure survival of their businesses. SARS will however continue with our combined payment compliance strategy to timeously contact companies for payment using accounts and service channels (See CIT filing compliance reason for variance).

## % VAT filing compliance



Intention	To track and monitor the compliance of registered vendors with their filing obligations.
Achievement	52.23%
Target	62.50%
Variance	-10.27
Baseline	53.58%

**Reason for variance:** VAT registration requirements have been simplified to allow vendors to apply for VAT registration online. This has seen an increase in the number of VAT registrations. From 1 April 2017 to 31 March 2018, 41 379 VAT vendors have been registered. These vendors have already amassed 43 028 outstanding VAT returns, which contribute to a decrease in filing compliance.

## % VAT payment compliance



Intention	To track and monitor the extent to which assessed vendors are settling their VAT payment obligation in full and on time.
Achievement	85.12%
Target	87.50%
Variance	-2.38
Baseline	82.89%

**Reason for variance:** The annual payment compliance is 2.38% below the annual target of 87.50%.

### Factors attributing to 2.38% below VAT Payment Target:

Returns remain the main source of raising tax assessments and subsequent revenue debt. Only 52.23% VAT filing compliance was realised during the period under review, which was a 10.26% performance below the filing compliance target of 62.50%. The 2.38% under performance on VAT payment compliance is attributed mainly on the low compliance of returns submitted during the 2017/18 financial year. This is in addition to the unfavourable economic conditions that prevailed, which resulted in many VAT vendors and the wider business communities not being able to meet their tax obligations. This was evidenced by the fact that over 60% outstanding debt identified during the planned SMME inspections conducted during the period under review, was in respect of VAT vendors who could not pay, while over 30% of the total businesses had outstanding business tax returns.

### Corrective action:

- 1) SARS is in a process of introducing penalties for late or no submission of VAT returns.
- 2) Introduction of the Debt Strategy, that prioritises new debt before it becomes old and uncollectable, which will reinforce the behaviour of taxpayers to make payments immediately after submitting their returns.



### % PAYE filing compliance



Intention	To track and monitor the compliance of registered employers with their filing obligations.
Achievement	59.19%
Target	67.50%
Variance	-8.31
Baseline	60.51%

**Reason for variance:** The PAYE register clean-up is still in progress, and this will improve the compliance rate in the future, as it will adhere to the compliance measure definition. Employers omit to file monthly returns (EMP201) as they intend filing on reconciliation (EMP501), therefore although these employers make monthly payments to SARS, monthly returns remain outstanding. Currently, there is no penalty for non-filing.

### % PAYE payment compliance



Intention	To track and monitor the extent to which assessed employers are settling their gross PAYE payment obligation in full and on time.
Achievement	85.83%
Target	87.50%
Variance	-1.67
Baseline	85.16%

**Reason for variance:** There was a steady decline in instances of both late payments and non-payments over the last three years. Efforts to maintain this trend will be intensified going forward.

### % Audit coverage of registered taxpayers (PIT, CIT, VAT, PAYE and Trusts)



Intention	To monitor SARS's audit coverage of registered taxpayers to ensure a fair and equitable tax system.
Achievement	14.47%
Target	12.00%
Variance	+2.47
Baseline	18.26%

**Reason for variance:** The actual achievement is above the target. SARS concluded 1 617 585 audits for the year, of which the majority were compliance verification audits. Over performance is due to the effort made to complete work in progress cases.

## Outcome 3 - Increased Ease and Fairness of Doing Business with SARS

### % System Uptime for e-channels



Intention	To monitor electronic channel availability targeted at e-filing and business-to-business gateway.
Achievement	99.67%
Target	99.00%
Variance	+0.67
Baseline	99.38%

**Reason for variance:** Over performance is due to a strategic decision to strengthen the ICT Change Advisory governance controls during the financial year. These controls brought about more stable ICT infrastructure.



## % Uptake of PIT e-filing channel



Intention	The intention of this measure is to assess the extent to which SARS is providing an advanced service to PIT taxpayers to engage using e-filing
Achievement	52.51%
Target	52.00%
Variance	+0.51
Baseline	53.26%

**Reason for variance:** For the year, SARS received 4 821 737 PIT returns. Of this total, 2 531 833 were submitted electronically, which equates to a 52.51% uptake.

## Average processing turnaround time for PIT returns (working days)



Intention	To assess the duration that SARS takes to process PIT returns.
Achievement	0.43 days
Target	Less than 1 day
Variance	+0.57 days
Baseline	0.23 days

**Reason for variance:** The performance is within acceptable performance levels.

## Average processing turnaround time for CIT returns (working days)



Intention	To assess the duration that SARS takes to process CIT returns.
Achievement	0.54 days
Target	Less than 1 day
Variance	+0.46 days
Baseline	0.28 days

**Reason for variance:** The performance is within acceptable performance levels.

## Average processing turnaround time for VAT refunds (working days)



Intention	To assess the duration that SARS takes to process VAT refunds
Achievement	23.17 days
Target	21 days
Variance	-2.17 days
Baseline	22.89 days

**Reason for variance:** The performance is within acceptable performance levels.

The criteria used for determining the 2017/18 actual achievement differs from the criteria used in determining the baseline, i.e. the actual achievement for 2016/17. These changes were necessitated by the refinement/adjustment to the calculation.

## Outcome 4 - Increased Cost Effectiveness and Internal Efficiencies

### Treasury allocation to revenue percentage



Intention	To assess the extent to which SARS is achieving its five outcomes in a cost-effective manner.
Achievement	0.89%
Target	Between 0.95 and 1.00
Variance	+0.11
Baseline	0.93%

**Reason for variance:** SARS contained costs while increasing the amount of revenue it has collected.



## Outcome 5 - Increased Public Trust and Credibility

### Employee Engagement (%)



Intention	To monitor the strength of the affiliation between SARS and its employees.
Achievement	63.60%
Target	66.00%
Variance	-2.40
Baseline	Not measured

**Reason for variance:** Employee Engagement levels in SARS have improved since its inception in 2007. However, a decline to 63.60% in the Employee Engagement Index was experienced in a recent survey conducted.

### Leadership Effectiveness Index (%)



Intention	To gauge the effectiveness of SARS managers through the use of a 360 degree assessment process.
Achievement	88.08%
Target	88.00%
Variance	+0.08
Baseline	88.46%

**Reason for variance:** The LEI score is slightly above target, but lower than the 2016/17 year.

### Employment Equity: Demographics (%)



Intention	To gauge how adequately SARS is representing the country's demographics in the workforce, and to promote gender equality and create opportunities for people with disabilities.
Achievement	76.01%
Target	75.50%
Variance	+0.51
Baseline	74.84%

**Reason for variance:** The race equity for the end of the financial year is 76.01%. The target was exceeded by 68 employees.

### Employment Equity: Gender on management level (%)



Intention	To gauge how adequately SARS is representing the country's demographics in the workforce, and to promote gender equality and create opportunities for people with disabilities.
Achievement	48.78%
Target	48.90%
Variance	-0.12
Baseline	48.70%

**Reason for variance:** The Gender Representation on management levels was at 48.78%. The target was not met for this financial year with a shortage of 5 employees.





## Employment Equity: Disability (%)



Intention	To gauge how adequately SARS is representing the country's demographics in the workforce, and to promote gender equality and create opportunities for people with disabilities.
Achievement	1.92%
Target	1.60%
Variance	+0.32
Baseline	1.51%

**Reason for variance:** The Disability Representation was at 1.92% against the set target of 1.60%. The target was exceeded for this financial year by 43 employees.

## Unqualified report by Auditor-General



Intention	To assess SARS's commitment to maintain and promote good governance in the organisation.
Achievement	Unqualified Audit Report with findings
Target	Clean Audit Report
Variance	0.00
Baseline	Unqualified Audit Report with findings regarding Compliance

**Reason for variance:** The Auditor-General audit report for SARS Own-Accounts is an Unqualified Audit Report with findings.

## Public opinion index (%)



Intention	To gauge the public's perceptions and attitudes towards tax compliance. The purpose of this measure is to help SARS better understand the public's attitudes towards tax compliance, and obtain feedback to enable SARS to track and monitor tax compliance over time.
Achievement	Not conducted
Target	75.50%
Variance	0.00
Baseline	72.00%

**Reason for variance:** The Public Opinion Survey was not conducted for the 2017/18 financial year due to the termination (due to a breach of contract conditions) of the contract with the previous service provider. The process of appointing a new service provider was delayed owing to a conflict of interest that arose during the Bid Evaluation Process and during the final stages of the procurement process. For this reason, a new procurement process could not be concluded, and the Public Opinion survey could not be completed before the end of the 2017/18 financial year.

However, SARS has other instruments at its disposal that it uses regularly to monitor/gauge taxpayer/public perceptions and their service experience. These include the SARS Quarterly Business Perceptions Survey and SARS Service Experience Survey. During the 2017/18 fiscal year, SARS also commissioned another public perception survey conducted by an external service provider (Genex Insights) at the start of the tax filing-season, to gauge perceptions of the SARS brand. Conclusions/findings from the Genex report were:



### Public opinion index (%) (continued)

- SARS is generally well perceived amongst both individuals and businesses as a hugely efficient and effective organisation, and certainly more so than other parastatals.
- Amongst individuals, there is a need for better education around tax deductions, tax returns and tax calculations.
- While there is the odd niggle, perceptions of SARS as an organisation are generally positive, particularly amongst businesses and tax practitioners.
- Nevertheless, the recent negative media coverage around SARS, the public sector, state owned enterprises and government in general does have a negative influence on the perception of the public.
- Most critically, it calls into question whether the funds which SARS is tasked with collecting are used in a manner which is beneficial for the broader public, or whether they are used for lining the pockets of a select few.
- Concerns around the independence of SARS and the degree of political involvement in the organisation are more often thought to involve the senior management and leadership at SARS, rather than the SARS employee in the branch.
- In addition, since the media are often the first entities to report on these issues, the public has come to rely on the media for information, perceiving the media to be the primary provider of insight into the workings of public sector agencies.
- Businesses in general are more open-minded with regard to the media reports, and are more likely to believe in the efficacy of SARS than their individual counterparts.
- There was little to no indication that any of the participants had ever considered a tax revolt, and most were of the opinion that the chaos and suffering (particularly of the poor) caused as a result of a tax revolt would likely outweigh the possible, eventual benefits.

We are in no way saying that the above survey replaces the Public Opinion Survey. Procurement processes are at the final stages to ensure that the 2018/19 Public Opinion Survey is done and concluded timeously.

GOVERNANCE, LEGAL  
& RISK MANAGEMENT

PART THREE



## Governance

### SARS Values

Governance, through its Integrity Promotion Unit, promoted the proper embedding of ethical principles during the 2017/18 financial year. In this regard, 146 induction sessions were facilitated with new staff members to ensure the awareness of the SARS Values, the SARS Code of Conduct, as well as the Governance Framework.

Fairness	
Integrity	
Trust	
Honesty	
Accountability	
Respect	
Transparency	

### Policy and procedure

Governance published, a total of 910 documents during the year under review, which are available on the SARS Website and/or Intranet. A key aspect in the development and update of the documents is to ensure continuous improvement in policies and procedures through the incorporation of the seven approved SARS Values and proper alignment with the relevant SARS structures. On average, 75 documents were developed (initiated or reviewed) per month.

Governance ensures the smooth transition of any newly developed tax, customs and excise products and legislation into practical operational procedures.

### Trade Statistics

SARS is the legislatively empowered government entity for merchandise trade statistics in terms of Section 117 of the Customs and Excise Act No. 91 of 1964. The function requires the capture, verification, analysis and publication of trade data. The Trade Statistics Division provides trade statistics to persons, institutions and organs of state for purposes listed in Section 4(3).

Documented policy and procedures within the Trade Statistics Division have been reviewed to align not only with systems and processes, but also with international best practices on trade statistics. These systems and processes are constantly being enhanced or replaced by newly developed databases, tools and templates, culminating in the official trade balance of South Africa that directs fiscal, monetary and trade policies.

### Governance Framework

The first-ever SARS enterprise-wide Governance Framework was approved. The Governance Framework contributes to effective governance and acts as the central core to which other governance methodologies, policies and procedures can be referenced. It also sets out the core values, principles and accountabilities within SARS.

### Levels of Authority

Governance compiled a consolidated Register of Levels of Authority for socialisation within SARS. The consolidated register enhances governance by instilling responsibility at different levels of management, that ultimately contributes to effective and efficient functioning of the business units.



## Parliamentary Engagements

Standing Committee on Finance (SCOF)	
Date	Meeting
9 May 2017	Briefing on SARS Annual Performance Plan and Strategic Plan
23 May 2017	National Treasury Budget Vote Plenary
20 June 2017	Briefing on the SARS 2016/17 Quarter 4 report
10 August 2017	Cabinet Committee on Trade Statistics
13 September 2017	Presentation on 2017/18 Quarter 1 report
25 October 2017	Medium Term Budget Policy Statement
28 November 2017	Presentation: Annual Report
5 December 2017	Follow-up on the Makwakwa and Symington matters Follow-up on the KPMG letter
16 February 2018	State of the Nation Address
21 February 2018	Budget Speech
13 March 2018	Follow-up on matters of 5 December 2017

Standing Committee on Public Accounts (SCOPA)	
Date	Meeting
23 May 2017	Anti-Corruption Task Team on pending cases and budget vote
14 June 2017	Anti-Corruption Task Team on pending cases

Department of Home Affairs (DHA)	
Date	Meeting
13 June 2017	Border Management Agency meeting with the Director Generals of DHA and National Treasury

Department of Trade and Industry (DTI)	
Date	Meeting
2 June 2017	Meeting with the Statistician-General on Trade Statistics
9 June 2017	Statistics Council Meeting
6 December 2017	Meeting with the Governor of the South African Reserve Bank and the Statistician-General

## SARS Committees

### SARS Executive Committee

SARS is a public-sector entity created by the South African Revenue Service Act No. 34 of 1997 (SARS Act) and regulated under the Public Finance Management Act No. 1 of 1999 (PFMA). The table below contains the details of persons who served on

EXCO during the year. The columns “Start date” and “End date” only reflect a date if the respective EXCO member’s term in a specific role, started or ended during the reporting period.

The SARS Executive Committee held 19 meetings, excluding the risk and APP sessions, and had 9 members as at 31 March 2018.

EXCO Member	Position	Start Date	End Date
Tom Moyane	Commissioner		19 March 2018
Mark Kingon	Acting Commissioner	19 March 2018	
Hlengani Mathebula	Chief Officer: Governance, International Relations, Strategy and Communications		
Firdous Sallie	Acting Chief Officer: Business and Individual Taxes	1 April 2017	15 May 2017
Dan Zulu	Acting Chief Officer: Business and Individual Taxes	16 May 2017	31 October 2017
Jonas Makwakwa	Chief Officer: Business and Individual Taxes	1 November 2017	14 March 2018
Mark Kingon	Acting Chief Officer: Business and Individual Taxes	14 March 2018	19 March 2018
Fabian Murray	Acting Chief Officer: Business and Individual Taxes	20 March 2018	
Jed Michaletos	Chief Officer: Customs and Excise		31 January 2018
Teboho Mokoena	Chief Officer: Customs and Excise	30 January 2018	
Intikhab Shaik	Acting Chief Officer: Digital Information Services and Technology	5 April 2017	30 April 2017
Mmamathe Makhekhe-Mokhuane	Chief Officer: Digital Information Services and Technology	1 May 2017	
Hlengani Mathebula	Acting Chief Officer: Enforcement	1 April 2017	30 June 2017
Mogola Makola	Chief Officer: Enforcement	1 July 2017	
Matsobane Matlwa	Chief Officer: Finance		2 August 2017
Johnstone Makhubu	Acting Chief Officer: Finance	1 August 2017	
Teboho Mokoena	Chief Officer: Human Capital and Development		29 January 2018
Luther Lebelo	Acting Chief Officer: Human Capital and Development	30 January 2018	
Neo Tsholanku	Acting Chief Officer: Legal Counsel	1 March 2017	30 April 2017
Refiloe Mokoena	Chief Officer: Legal Counsel	1 May 2017	

Jonas Makwakwa was reinstated in his position as Chief Officer: Business and Individual Taxes on 1 November 2017 and he resigned on 14 March 2018.

Tom Moyane was suspended from his position on 19 March 2018.



## Audit and Risk Committee

The Audit and Risk Committee held 4 meetings as at 31 March 2018.

Members of the Committee are:

Sathie Gouden (Chairperson)

Thabiso Ramasike

Nonkululeko Gobodo (until 1 November)

Meta Maponya

The Audit and Risk Committee has ensured independence in accordance with section 77 of PFMA and Treasury Regulations 27.1.3 and 27.1.4. All members, including the chairperson are external appointees and independent non-executive members. All members complied with statutory required competencies, no conflict of interest and independence requirements.

They reviewed SARS's effectiveness regarding:

- Internal control system
- Internal audit function
- Risk management system
- Risk associated with people
- Risk areas within operations to be covered by the scope of internal and external audits
- Adequacy, reliability and accuracy of financial information
- Accounting and auditing concerns identified as a result of internal or external audits
- Compliance with legal and regulatory provisions
- Activities of internal audit function and annual programme
- Co-ordination with Auditor-General
- Reports of significant investigations and management responses

The report of the Audit and Risk Committee, details of membership and meetings conducted and attendance are included in Part Five of this report.

## Enterprise Risk Management (ERM)

As the Accounting Authority of SARS and in terms of the Public Finance Management Act (PFMA), the Commissioner has a duty to maintain and manage a risk governance process. SARS has reviewed the significant risks and progress on managing these risks to date.

The SARS Executive Committee (EXCO) analysed its comprehensive risk universe, including top global and country risks, the current SARS strategic risks, the divisional risk profiles and the risks as depicted in the Annual Performance Plan 2017/18, to inform its current risk exposure. This was done during the two EXCO risk workshops held in August and October

2017. The review identified six key risks, facing the organisation. These risks were presented to and accepted by the Audit and Risk Committee. The risks, mitigating actions and progress on mitigating action, as at the end of the financial year, are depicted in the table.

SARS also maintains a comprehensive list of strategic and high-end operational risks, that are similarly monitored and reviewed with progress reported on a quarterly basis at the Divisional Risk Management Committees, chaired by the respective Chief Officers and the Enterprise Risk Management Committee, chaired by the Commissioner.

### Top 6 Risks identified for SARS in 2017/18:

- 1 Cyber security threat
- 2 Loss of public trust and credibility
- 3 Illicit trade and smuggling
- 4 Increasing non-compliance by taxpayers and traders
- 5 Business interruption
- 6 Loss and leakage of data and information



## SARS Top Risks for 2017/18

### 1. Cyber security threat

The escalation of large-scale cyber-attacks nationally and globally leads to SARS's vulnerability, and in the event of an attack, could result in taxpayer and trader confidentiality breaches and severe reputational damage.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• Socialise and implement the approved IT strategy.</li> <li>• Implement and monitor the Cyber-security roadmap.</li> <li>• Develop a Data Loss Prevention (DLP) programme to introduce world-class capabilities for the management of electronic information and to protect against cyber-attacks.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of Information Security Strategy and roadmap is underway.</li> <li>• DLP project underway. The project aims to assist SARS to safeguard against electronic data leakage.</li> </ul>

### 2. Loss of public trust and credibility

Damage to the reputation of SARS due to negative media reports, varying levels of service provided to customers and stakeholders and SARS non-compliance to legislation and regulations; leads to the projection of a negative perception of SARS and results in loss of public trust and credibility.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• Develop a Strategy and Framework for Reputational Risk Management which will include a Communications and Engagement Strategy to support pro-active internal and external communication.</li> <li>• Reinforce the SARS core values and the SARS Code of Conduct.</li> <li>• Roll-out the approved SARS Service Charter.</li> </ul>	<ul style="list-style-type: none"> <li>• A discussion document on Reputational Management is being drafted for review, and input towards developing the Reputational Risk Management Strategy and Framework is underway.</li> <li>• Awareness sessions have commenced at various levels in the organisation on the SARS Code of Ethics and core Values by the Integrity Promotion Unit.</li> </ul>

### 3. Illicit trade and smuggling

Poor border control leads to increased trade and smuggling of counterfeit goods, narcotics, fuel, and commodities, as well as illicit financial flows and trade mispricing, which results in a negative socio-economic impact, threatens economic growth, and undermines legitimate formal businesses and financial activity.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• Ensure internal anti-corruption measures are implemented.</li> <li>• Introduce systems and processes to improve detection of fraud and non-compliance.</li> <li>• Institutionalise the goods control pilot to improve goods control into and out of the country, and across the land.</li> <li>• Finalise implementation and monitor the "Track and Trace" project.</li> <li>• Research, develop and implement a new Compliance Approach and Programme.</li> </ul>	<ul style="list-style-type: none"> <li>• The Customs Risk Engine (CRE) is continuously being enhanced and developed, and new rules are continuously implemented to identify and manage areas of non-compliance.</li> <li>• The traveller's card and its processes are being redesigned and will be implemented in the new financial year.</li> <li>• A number plate recognition system is currently being piloted at one border post.</li> </ul>



#### 4. Increasing non-compliance by taxpayers and traders

Weak case selection and taxpayer profiling; the inability to identify potential tax avoidance schemes; failed strategic enforcement projects; inadequate resources and skills needed to detect and act against sophisticated tax avoidance schemes leads to ineffective enforcement interventions, which result in increased non-compliance and the inability to meet the revenue and duty targets required to meet fiscal demands.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• Redefine the profile of human resources in case selection and audit to ensure the right mix of knowledge, skills, and experience is present to competently select, profile, and audit complex and potential high-yield cases.</li> <li>• Develop specific and focused skills development interventions to enhance the effectiveness of human resources in case selection and audit.</li> <li>• Implement the revised Compliance Programme (2012 - 2018/19) and research and develop a new Compliance Programme for (2019/20 - 2023/24).</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Scoping and action plan development - a multi-stakeholder strategy workshop hosted by Enforcement and facilitated by ERM is planned for May 2018, to inform the development of a new Compliance Programme. The workshop will further provide clarity on the case selection, auditor and leadership profiles required to implement the new Compliance Programme.</li> <li>• Capability and Capacity Development - review of the Audit and Risk Management job profiles (competencies, skills, and minimum requirements) has been completed. This work will serve as a basis for the assessment of current skills so as to develop targeted training and development interventions over the medium term.</li> </ul>

#### 5. Business interruption

The lack of an approved enterprise-wide Business Continuity Management (BCM) Framework leads to an inability to plan a response to unplanned business interruptions, and in the event of an incident, results in prolonged business interruption, operational failures and potential business failure.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• SARS will develop a BCM Committee structure represented by all businesses.</li> <li>• Source an appropriate partner by tender to develop and implement an enterprise-wide Business Continuity Management (BCM) Framework (including the Disaster Recovery Plan) based on ISO 22301.</li> </ul>	<ul style="list-style-type: none"> <li>• A Draft BCM Policy for Corporate Real Estate has been developed for approval.</li> <li>• Commenced development of a BCM Committee with representatives from all Business Areas.</li> <li>• Going to Tender for a complete BCM solution, including a BIA and development of a draft BCM Framework, Strategy and Enterprise-wide Policy.</li> </ul>

#### 6. Loss and leakage of data and Information

The lack of a co-ordinated enterprise-wide approach to protecting and securing digital and physical information leads to fragmented and inefficient management and security controls, resulting in loss, theft and exploitation of data and physical information.

Mitigating Action	Progress on Mitigating Actions
<ul style="list-style-type: none"> <li>• Develop an Integrated Security Framework to protect digital /physical data and information, people and facilities at an enterprise-level.</li> <li>• Develop a Data Loss Prevention (DLP) programme to introduce world-class capabilities for the management of electronic information and to protect against cyber-attacks.</li> </ul>	<ul style="list-style-type: none"> <li>• The allocation of specific areas of responsibility to divisions with the correct skills is currently being resolved.</li> <li>• DLP project underway. Project delayed due to contract signing. The project aims to assist SARS to safeguard against electronic data leakage.</li> </ul>



## Internal Audit

### Objective

The objective of internal audit, as enshrined in the PFMA, is to provide objective and independent assurance on the adequacy and effectiveness of SARS's governance, risk management and control processes.

The Group Executive reports administratively to the Commissioner and functionally to the SARS Audit and Risk Committee, with unrestricted access to the Chairperson.

Activities are governed by the Internal Audit Charter, which is reviewed on an annual basis for relevance and applicability, and approved by the Audit and Risk Committee. The activities include, inter-alia, Assurance, Information Technology Audit, Audit of Project management processes and Audit of Performance information.

### Summary of work done

Internal audit has fully carried out various audit projects as contained in its risk-based audit plan that was approved by the Audit and Risk Committee. This plan was aimed at providing reasonable assurance to the Audit and Risk Committee on the state of internal controls within SARS, and has considered the management challenges that were identified in the sphere of:

- Financial management
- Human capital
- Information security/Cyber security
- Governance
- Risk management
- Institutional Integrity
- Border control and trade facilitation
- Enforcement
- Taxpayer/Trader services
- Revenue



### Other relevant information for the 2017/18 year

Internal audit is progressing with:

- The implementation of integrated and combined assurance in a phased approach.
- Evaluating the maturity implementation of risk and governance management processes.
- Enhancing the more robust follow-up procedure, to ensure that actions are managed effectively to mitigate risks.
- Implementing a Quality Assurance Improvement Programme to ensure sound internal audit processes.

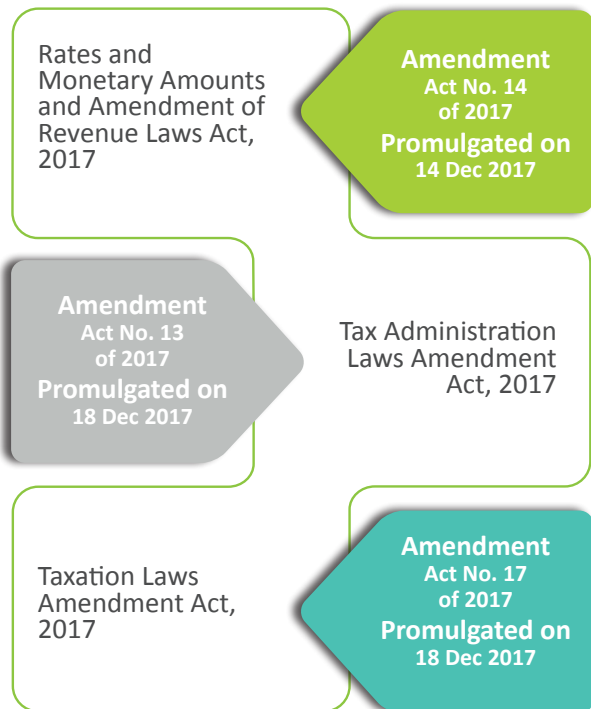
## Legal Counsel

### Amendment Acts

SARS conducts extensive research to support the drafting and developments of Acts pertaining to:

- Tax proposals, international tax and customs agreements.
- National Treasury is responsible for drafting and amending SA's taxation laws around tax policy matters.
- SARS is responsible for drafting and amending administrative and customs laws.

SARS meets frequently with National Treasury, the Department of Trade and Industry, Department of Labour, Department of Mineral Resources and tax practitioner organisations to help improve tax legislation and regulations.



## International Tax and Customs Agreements

An agreement was reached at an officials' level with other jurisdictions in respect of 11 international tax and customs agreements, to improve international treaty networks and co-operation between tax and/or customs administrations.

### Customs Mutual Administrative Assistance Agreement

Zimbabwe-South Africa Protocol amending the Customs Mutual Administrative Assistance Agreement



### Tax Information Exchange Agreement

Maldives-South Africa Tax Information Exchange Agreement



### Double Taxation Agreement/ Protocol

- Kuwait-South Africa Protocol
- Botswana-South Africa Additional Protocol
- Germany-South Africa Protocol



## Other Agreements

- Switzerland-South Africa Competent Authority Agreement under the Multilateral Convention, to implement tax treaty-related measures to prevent Base Erosion and Profit Shifting (BEPS).
- United States of America-South Africa Country-by-Country reports Competent Authority Agreement.
- Memorandum of Co-operation between BRICS.
- Hong Kong-South Africa Declaration on voluntarily filed Country-by-Country reports.
- Switzerland Automatic Exchange of Information exchange of letters agreement.
- Zambia-South Africa Memorandum of Co-operation on capacity building.

## Legal Advisory Services

- Finalised 392 binding rulings (59 CIT related and 333 VAT related).
- Finalised 724 non-binding rulings (144 CIT related and 580 PIT related).
- SARS continues to provide clarity and certainty to taxpayers on the interpretation of tax legislation and other laws administered by SARS.
- Issued various interpretation notes and brochures on new and contentious areas of legislation.
- Updated interpretative tax policy documents to ensure accurate and timeous updates.
- Issued binding private and class rulings on future transactions, and non-binding rulings on PIT and CIT legislation.

## Corporate Legal Services

- Provide pro-active legal advice, litigation, contractual drafting, negotiation, governance and support services to ensure internal compliance with legislative, regulatory and governance requirements.
- Deal with non-tax liability claims, promotion of access to information requests, general commercial matters and SARS property portfolio.

## Legal Delivery and Dispute Resolution

- Provide legal and governance support to internal business operations.
- Resolve disputes through Alternative Dispute Resolution (ADR) or litigation.
- Litigate on behalf of the Commissioner on tax, customs and excise matters.
- 6 634 appeals dealt with through the ADR process.
- 205 revenue and customs and excise matters finalised through the litigation process, of which 86.83% were successful.



## SARS Social Responsibility

The SARS Social Responsibility programme was presented to the SARS EXCO in September 2017. A request was made that the SARS Social Responsibility Programme be aligned with the SARS gift and bursary policies. To fulfil this request, an engagement took place among the relevant divisions to resolve the alignment challenges between the policies, resulting in the final strategy document presented to, and approved by SARS EXCO.

The SARS Social Responsibility (SR) initiatives embarked on in the 2017/18 financial year were linked to government priorities, in the areas of education and health care. SARS donated a total of 5 633 decommissioned IT assets and office furniture to 116 primary and high schools in all nine provinces in South Africa. All the beneficiary schools are government schools and non-fee paying schools. In addition to the schools, 15 Non-Governmental Organisations, mainly dealing with health care and education programmes, benefitted from SARS's donation of decommissioned IT and furniture assets.

### Making a difference – 67 minutes for Mandela

Every individual has the power to transform the world and make an impact. This is what Nelson Mandela tried to instil in all South Africans when he fought for social justice for 67 years.

As a tribute to the former President, Nelson Mandela and his legacy, SARS employees and others around the country rolled up their sleeves for 67 minutes and went out into various communities to lend a helping hand to those in need.

The Upington branch collected and received donations of R2 200 from employees. The cash was used to buy

milk, nappies and porridge for a place of safety for children. Toys and baby clothes were also donated to the home. The Upington branch also assisted with pampering the babies for the day, and assisting with the laundry, preparing food and watering of the garden.

The Tactical Interventions Unit in Bloemfontein collected cash donations and visited an elderly lady who lives alone in the nearby township. The team used the money collected to buy glass to fix broken windows. They also bought groceries for her and helped clean around the house.

Three teams from Head Office dedicated their 67 minutes to two homes in Eersterust and in Mamelodi under the Tshwane Child Welfare. These teams hosted a boerewors roll day braai on Friday 7 July to raise funds for Mandela day.

A 'knitathon' was also held on the same day, where some of the ladies knitted scarves and beanies for the children at the Mamelodi home.

On the day, the team held a soup kitchen for 500 children from the two homes, and donated 127 scarves, beanies and pairs of gloves that were knitted by the team. Over and above, an estimated R8 000 worth of hardware material was donated to paint and repair the two centres.

Other items that were donated included 195 dignity buckets for ladies and gents (buckets filled with toiletries such as sanitary pads, petroleum jelly, body cream, lip ice, soap, toothbrush and toothpaste).

The team also collected R6 140 for the Muscular Dystrophy Foundation of South Africa. The money will be used to repair wheelchairs.



**A total of 5 633  
decommissioned assets  
were donated to  
131 beneficiary  
organisations**

## Private Sector Stakeholder Management

The following highlights relate to the key stakeholder events that SARS participated in:

### American Chamber of Commerce (AMCHAM)

The Commissioner presented the key-note address to the CFOs/CEOs of the biggest Fortune 500 American companies in SA, who are members of the American Chamber of Commerce (AMCHAM). This is a key stakeholder as AMCHAM represents a key sector that has a significant impact on revenue in terms of American trading activities in SA. The Commissioner's message focused on the eradication of transfer pricing and other similar schemes that result in revenue losses.



### Disability Organisations

SARS made specific efforts to focus on the needs of the disabled community. We took part in information sharing sessions with the South African Disability Development Trust (SADDT) and the South African Disability Organisation (SADO) to further highlight SARS's commitment to be accessible and accommodating to all taxpayers.

### New Customs Act Programme (NCAP)

SARS identified the need to conduct national road shows focussing on the NCAP implementation. Approximately 1 500 stakeholders were engaged. The tactical releases related to the simplified clearance and registration. Licensing and accreditation processes will prioritise the express parcel industry and RCG clients respectively.

### Health Promotion Levy

With the introduction of the Health Promotion Levy scheduled to commence on 1 April 2018, SARS embarked on road shows to appraise affected taxpayers about the levy. Over 400 external stakeholders attended these sessions, with many stakeholders making the effort to comply with legislation and register before the commencement date of the levy.

### Tax Indaba

The key-note address from the Minister of Finance and Commissioner served to guide the dialogue and interaction between the sector and SARS at the Indaba. This Indaba, hosted by all Tax Practitioner Recognised Controlling Bodies, allowed for constructive discussions and created an atmosphere of mutual appreciation for the challenges around revenue collection by both SARS and tax professionals.

SARS was applauded for its willingness to engage with tax professionals and for acknowledging and apologising for the systems issues experienced at the beginning of the 2017 tax season. In addition, SARS used the platform to clarify positions taken and to expand and emphasise the need for improved tax compliance to build fiscal citizenship.

The participation of SARS experts and senior staff during various panels of the five-day event further strengthened the perception of SARS as capable and effective in achieving its mandate. The reputational impact from the Tax Indaba was positive and enhanced SARS's reputation.





### Other engagements

The following engagements were held during the reporting period:

- **Black Business Council (BBC)**

This is a significant business grouping that is centrally involved in transforming the economy. The BBC engaged directly with the office of the Commissioner to explore the possibilities of formalising a relationship with SARS.

- **Banking Association of South Africa (BASA)**

SARS has a critical operational and strategic relationship with the banking sector in terms of revenue collection. BASA is the largest representative body for the sector, and has both operational and strategic leadership level engagements with SARS. BASA and SARS are in the final stages of completing a mutual agreement to formalise and institutionalise the relationship.

- **Tobacco Institute of Southern Africa (TISA) and Fair Trade Independent Tobacco Association (FITA)**

SARS continued to engage in bilateral meetings with these two associations in 2017, in order to address concerns around the illicit tobacco trade, to keep industry informed of SARS developments and ultimately rebuild trust. A key outcome of these meetings was that SARS will reconstitute the Tobacco Industry Forum in 2018 after obtaining consensus from both TISA and FITA.

- **Recognised Controlling Bodies (RCBs)**

This group includes 11 tax professional bodies that represent about 22 000 tax professionals. SARS has established both strategic and operational forums for this sector, and in this reporting period, there have been a total of six engagements. These interactions have addressed key issues that affect the tax practitioners and advisors in their professional function.

- **Free State Black Business Chamber (FSBCC)**

This umbrella association is specific to the Free State and has engaged formally with the Commissioner and leadership of SARS.

- **South African Clothing and Textile Workers Union (SACTWU)**

The Commissioner met with SACTWU to discuss the memorandum of demands SACTWU handed over to SARS when it protested outside SARS Head Office. The outcome of the meeting was that SARS formed a Clothing and Textile task team to focus on, and respond to industry concerns. This task team developed an action plan and implemented enforcement initiatives in response to SACTWU's demands.



# Capital Investment

## Corporate Real Estate

### Analysis of current portfolio and usage

The bulk of the portfolio (49%) is allocated to corporate office space. Taxpayer branches (13%), warehouses (13%) and customs operations (10%) are some of the other major areas. Filing and document storage (11%) and the remainder are ancillary spaces with low percentage usage.

### Growth and Expansion

#### Increased Customs Warehouse capacity

SARS increased the Customs Warehouse capacity at the Beitbridge Border Post by re-developing and converting an old building at the Musina South African National Defence Force base into a Customs Warehouse. SARS also developed the adjacent grounds as a secure parking facility for confiscated vehicles.

#### Improve control over the flow of all goods and travellers entering and leaving the country (Goods Control)

- Installed a baggage scanner at the Beitbridge Border Post.
- The upgrading of the Lebombo Border Post bypass road was completed in time for the December 2017 peak period.

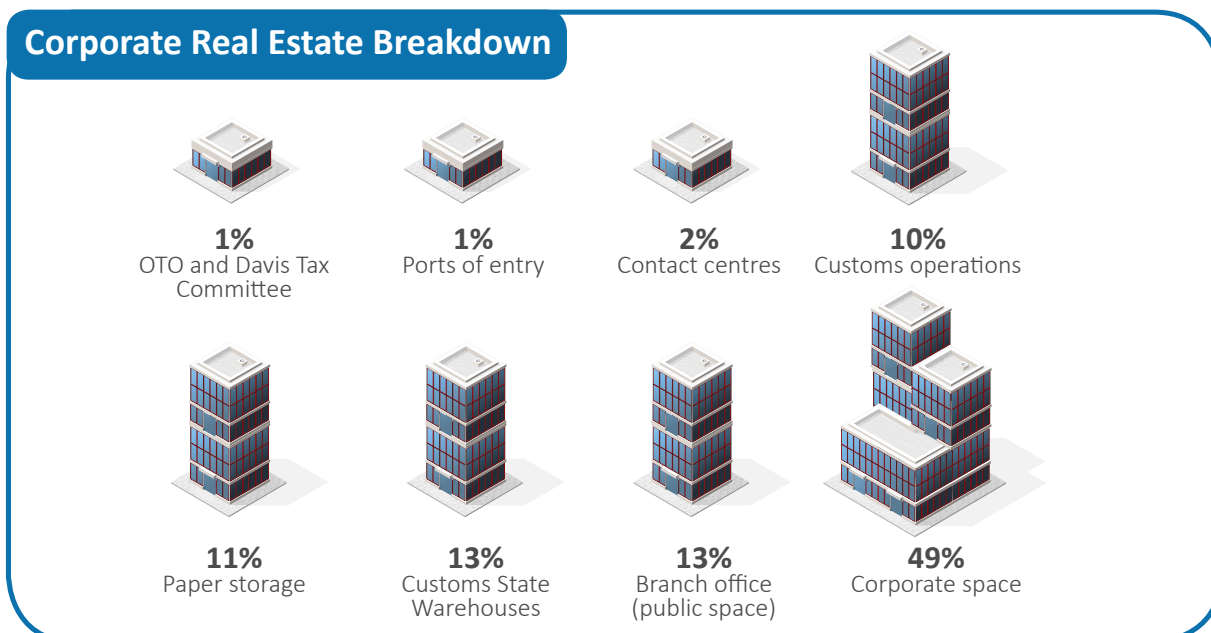
- Total rental savings accumulated during the year amounted to R27.5 million, with more savings to be realised in years to come following interventions that have been initiated during the 2017/18 financial year.

### Efficiency Projects

- Relocated documents and paper stored in office spaces to off-site paper storage facilities in Cape Town, P166 building.
- Relocated documents and paper stored in office spaces to off-site paper storage facilities in East London.
- Corporate Real Estate provided alternative domestic accommodation for Customs personnel working at the Lebombo Border Post in Komatipoort.

### Space Innovations

SARS approved the modern agile office approach to allow all current Corporate Real Estate planning to re-align to best practice approach of 8.5 to 9.5 m<sup>2</sup> per Full Time Employee under an activity based workspace approach, which is also aligned to best HR practices, and deployed via a neighbour-choice environment office planning.



## Green Building and Renewable Energy Innovations

Corporate Real Estate partly constructed carports equipped with renewable energy photovoltaic (PV) plants to reduce building operating costs.

## Business Continuity

A generator plant was provided for the Giyani office, while Durban's Trescon House received two generators to be commissioned early in the 2018/19 financial year.

## Compliance Upgrades and Relocations

### Building Conditions Assessments

By 31 March 2018, 84 building condition assessment reports were concluded and the rectification of deficiencies and Occupational Health and Safety issues were being actioned by the Facilities Management team. The cost implications are that R92.7 million is required to remedy issues raised in the reports. Further analysis is under way to identify any violations to the Occupational Health and Safety Act. This project will be concluded by 2018/19, with all the 140 buildings assessed accordingly.

An assessment of the condition of all lifts is also in progress and is to be completed by the 2018/19 financial year. Landlords are being requested to remedy any deficiencies identified.

### SIOL relocated to the Eskom Training Academy Campus in Midrand

The SARS Institute of Learning (SIOL) was relocated from Brooklyn in Pretoria to the Eskom Academy of Learning (EAL) Campus in Midrand. The typical educational and training facility offers increased capacity to accommodate training on a demand basis, rather than on a fixed lease cost basis.

### Finalised phase 1 upgrade of the Bloemfontein Central Government building

The upgrade of the Bloemfontein Central Government Building was completed during January 2018, at a cost of R11.3 million. The refurbishment enhances opportunities for space optimisation and relocating some operations from the leased Fedsure building, thereby reducing the rental costs in line with the SARS Real Estate Strategy.

The space optimisation is also linked to the completion of the new client interface building for SARS in Zastron Street.

### New Bloemfontein Zastron Building

Construction of the new client interface building is progressing well with the targeted completion date of July 2018, at a total cost of R30 million. The new branch fit-out of the Zastron building will achieve the desired outcome for SARS of creating a service channel network for the future, to deliver an easy, convenient and accessible service to all taxpayers. This will be the second new generation SARS branch in two years.

### Refurbishment of the Randburg ground floor

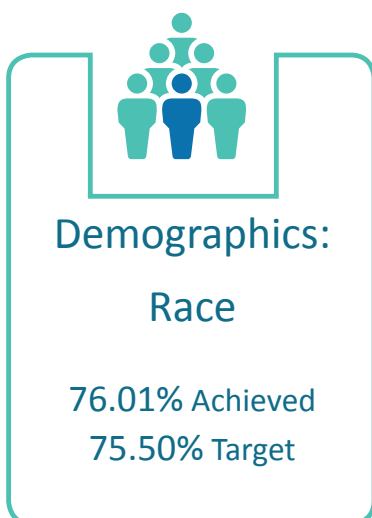
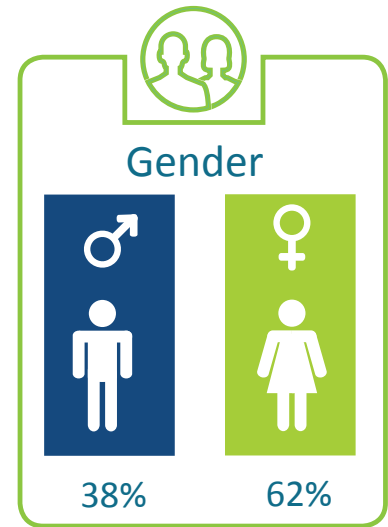
The refurbishment of the ground floor of the Randburg building was completed in the year under review, to provide a better service delivery experience for this busy branch.

### Compliance certification of Lehae La SARS

Corporate Real Estate embarked on a project to achieve regulatory compliance certification of the SARS – owned building Lehae la SARS in Brooklyn, Pretoria. The electrical compliance certification was obtained while the Fire Regulation compliance certification will be achieved in the 2018/19 financial year.

HUMAN CAPITAL AND  
DEVELOPMENT

PART FOUR  
4



## SARS People Management

The employees of SARS are key to the effective and efficient implementation of the various Acts that govern the Tax, Customs and Excise environment, and more specifically, the collection of revenue. It is therefore imperative to ensure that employees are fully capacitated, equipped and engaged for the positions they are appointed in. Furthermore, it is important to note that the attraction, deployment, and development of employees are guided by the required capability, capacity and strategic demands of the organisation. It is also of key importance for SARS to ensure that the workforce reflects society demographics, and that it removes barriers that prohibit transformation.

It is therefore also imperative that our employees are deployed in the required areas of business with the necessary capacity and capability, to serve all taxpayers across all tax types, in order to optimally contribute to revenue collection, tax compliance and customer service.

### SARS Strategic Workforce Planning

Foundational to the implementation of the people requirements of SARS is the development of a strategic view of where the organisation is going, what it will require to get there, and what the current baseline is. The vehicle that is used to drive the SARS people strategy is the SARS three-year strategic Workforce Plan (WFP). The development of a WFP assists the organisation to evaluate its strategies, its delivery plans and its current resources in a systematic manner. The WFP also facilitates in identifying the changes that will be required at a people level, in order to achieve the desired results. The WFP indicates capability and capacity requirements for existing and emerging areas. This generally implies the acquisition of staff in areas of growth, the maintenance of staff numbers in stable areas and the movement of staff where an oversupply exists. This development of the WFP also allows for the identification and building of a pipeline to ensure that skills that are required in future will be developed in time.

A critical component in the development of the WFP is the provision made for the costing of the required workforce, thus serving as a lead indicator for budgeting purposes. The SARS Strategic three-year Workforce Plan for 2017-2021 was finalised in October 2017, and subsequently approved by the SARS EXCO.

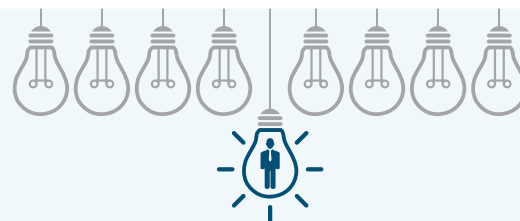
The development and implementation of the enterprise WFP is part of an integrated value chain of human capital management functions, and includes, but is not limited to, talent acquisition, talent development and talent movement.

### Recruitment and Staff Movement

The Recruitment and the movement of employees into identified capability areas, where there is a lack of capacity, are crucial to the effective functioning of the organisation. SARS's ability to move such a large number of people internally speaks volumes for its Employer Value Proposition, as it shows that the organisation offers career growth opportunities, but more importantly, it exhibits and validates the depth of talent that exists within the organisation.

Given that the recruitment team had to deal with such a large number of recruitment activities, it is therefore important that they are conducted effectively, getting the right people with the right skills, and efficiently as possible, whilst doing so at an acceptable pace.

SARS has managed to reduce the vacancy age from an average of 8 months to 5.39 months during the financial year under review. This improvement was a result of continuous improvements made to the recruitment process during the year. These improvements included the remapping of the recruitment process, updating the recruitment policy and standard operating procedures, and increasing the capacity and capability of the recruitment function.



## 2 010 Appointments

**90** new permanent employees

**733** seasonal workers

**245** trainees

**11** fixed-term contract workers

**931** internal appointments



### Learning and Development

The development of employees continues to be a major driver for SARS. The primary reason is to ensure that SARS has employees with the necessary capabilities, as required by the organisation at a specific point in time. Of course, it is also important to acknowledge that employees also have a desire to grow and progress, and as such, learning and development opportunities also create an opportunity to build depth in staff skills sets, and open the doors to possible progression in the effective learning and development function, creates a real win-win situation for SARS and its employees.

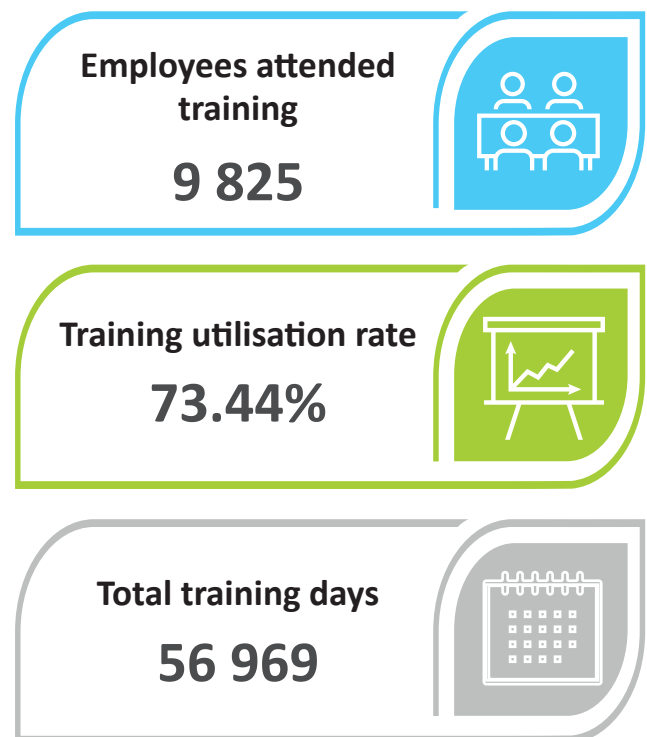
As is the case with most modern organisations, SARS also adopted a model and approval of blended learning, in which a range of learning methodologies are used. These vary from traditional classroom based training and facilitation sessions, to e-Learning, workshops (inside and outside of the organisation) as well as conferences, seminars and self-study.

For the year under review, 9 825 people, or 73.44% of SARS employees attended training sessions. A total number of 56 969 days were utilised for training purposes.

In order to ensure the SARS employees are updated with recent developments in the economic and financial environment, SARS developed a new curriculum on cryptocurrency, in order to capacitate staff on how to handle tax implications and associated taxpayer queries.

SARS is part of an international network of tax authorities, and as such, we share our expertise and also learn from other organisations and institutions:

- SARS supported the Botswana Unified Revenue Service (BURS) and Mauritius Customs to develop their Canine Units.
- The organisation helped to develop a common training curriculum on the Preferred Trader Programme for the Southern African Customs Union (SACU).
- SARS partnered with the International Monetary Fund by participating in specialised training in Transfer Pricing. This was offered to all critical staff members who specialise in this field.



## Leadership and Management Development

Leadership and management development is a crucial element in ensuring that SARS's staff is not only technically competent, but also able to effectively manage and lead productive and successful teams both today and into the future at all levels of the organisation.

All SARS learning that is related to management and leadership skills are based on an approved set of leadership and management competencies and learning that is tailor made to ensure competency development.

In line with the SARS Leadership and Management Development Framework, the following programmes were designed and implemented during the year under review, with an overall enrolment of 100 and 140 employees for the 2018 and 2019 academic years respectively.

### 140 Employees Enrolled Management programmes

- 40 Executive Management Development Programme
- 80 Senior Management Development Programme
- 20 Women in Leadership Programmes

Continuously benchmarking and measuring success is the hallmark of a modern organisation, and in order to determine the effectiveness of the management and leadership development initiatives, SARS conducts an annual Leadership Effectiveness Index (LEI) assessment.

- SARS achieved an overall Leadership Effectiveness Index (LEI) of 88.08% in the 2017/18 financial year.
- The organisation has steadily grown its leadership effectiveness over the past four years (from 85.27% in 2013/14) and it appears to have stabilised around the 88% level.
- This measure provides confidence and assurance

to the public that the organisation is equipped with strong and healthy leadership talent that can withstand environmental and organisational challenges, whilst maintaining its tax and customs collection capability and obligations.

## Skills Pipeline and Youth Development

SARS views its pipeline and youth development initiatives as having mutual benefits for the country as a whole, for SARS as an employer and for unemployed youth as potential employees.

By investing in youth development through the granting of bursaries to students, or through the enrolment in the graduate development programme, the country acquired citizens with skills and qualifications that make them more marketable and employable. SARS has adopted a philosophy of building a pipeline of potential employees that know the organisation, can relate to the culture, and have an affinity towards it. Students and graduates get the opportunity to acquire skills, obtain education, gain work experience, and earn money. This approach to pipeline and youth development truly benefits all involved.

The development model also ensures that SARS has a ready, willing and able group of capable people to fill entry level positions as and when the opportunity presents itself. SARS enrolled 245 new trainees on the 2-year development programme in the 2017/18 financial year.

A total of 220 trainees, who completed their development programme during the 2017/18 financial year, were appointed and placed into permanent positions in various capability areas across the organisation.



### Youth Development

- 175 Graduate Development Programme
- 61 Learnership
- 37 Chartered Accountants



## Employer Value Proposition

SARS acknowledges that it is dependent on the knowledge and skills of its workforce to be successful.

As part of the drive to ensure we have a workforce that is ready for the modern economy, SARS supports employees by making bursaries available to staff that wish to obtain first or additional qualifications.

In awarding bursaries, management considers the career aspirations of the staff members, as well as the skills requirements of the organisation to ensure studies are aligned to current and future roles.

The following table represent a breakdown of the 1 454 bursaries approved.

Type of Qualification	Approved
Programme	81
Certificate	178
Diploma	430
MBA	62
Degree	519
Honours Degree	52
Masters degree	107
PHD	25
<b>Grand Total</b>	<b>1 454</b>

Programmes listed in the table above include, but are not limited to the following:

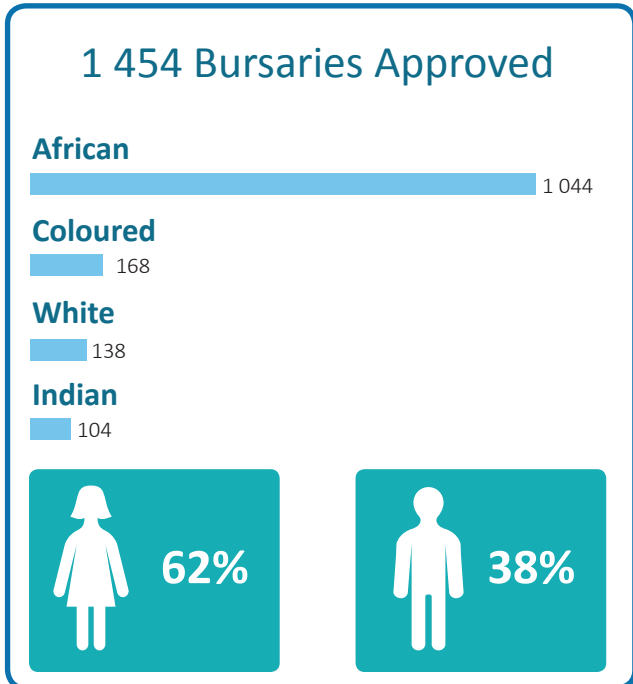
- Post Graduate Programme: Advance Tax
- Programme: Forensic and Investigative Audit
- Advanced Programme: Risk Management
- Advanced Programme: Sourcing and Supply Chain Management
- Programme: Advance Labour Law
- Programme: Business Management/Leadership

As observed, studies towards the achievement of formal degree qualifications represent most of the bursaries awarded.

SARS is particularly excited about the number of approved bursaries awarded to staff that are studying towards Honours, Masters and PHD qualifications.

In total, 90.5% of all bursaries have been allocated to staff from designated groups.

The majority of approved applications were made by 650 African females (44.70%), followed by 394 African males (27.10%).



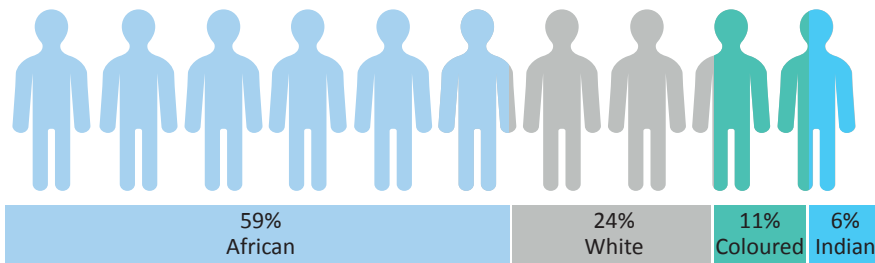


## Employment Equity and Workplace Diversity

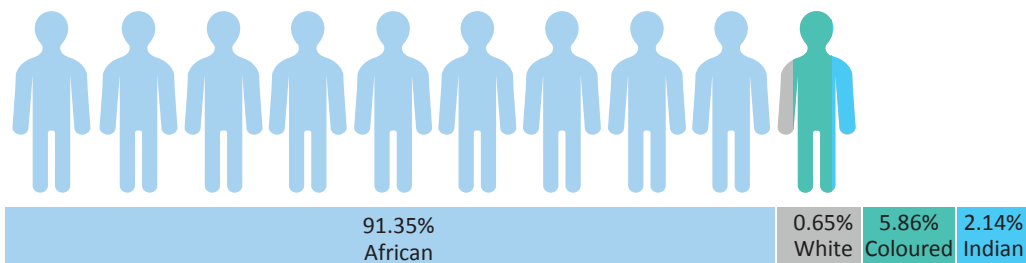
The process to make SARS an organisation that is truly reflective of the demographics and make-up of South Africa is progressing well. The overall Employment Equity race representation, female and disability

representation showed an improvement during the financial year under review. However, the gender representation at management levels are slightly below the target.

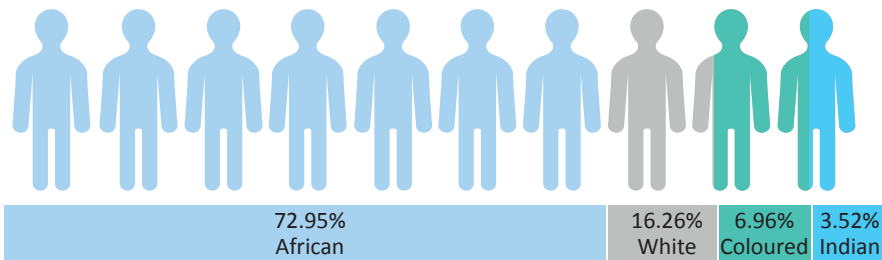
### Workforce Profile



### Recruitment



### Attrition



### Gender Representation on Management Level





## Employee Engagement



63.60%

Employee Engagement

Employee Engagement is about instilling a sense of pride and loyalty in employees in terms of working for SARS. When employees are fully engaged, they will demonstrate a positive commitment and connection with the organisation. This connection tends to influence employees' behaviour and level of effort in work-related activities. Engaged employees help to enhance the employer brand and act as ambassadors in and outside SARS. They are generally highly committed and are willing to go the extra mile, and strive to continuously achieve better results.

Given the importance of employee engagement and in order to determine the levels of engagement regularly, SARS conducts an Employee Engagement survey.

In order to ensure confidentiality and an unbiased report, an external specialist survey company is used. Employee Engagement levels in SARS have improved since its inception in 2007. However, in 2017, there was a decline in the Employee Engagement Index, with a negative shift from 67.7% in 2016 to 63.3%. According to IPSOS, the average Employee Engagement Index (EEI) score across employee engagement studies they conducted in 2017, dropped significantly from 66.5% in 2016 to 58.7% in 2017. A similar trend can be observed in SARS, which highlights the need to be cognisant of issues impacting on employee engagement both within the internal and external environment.

The overall decline in engagement levels is concerning given the fact that one of the people-related strategic objectives of SARS is to build an optimally engaged workforce that translates into a high performance culture within the organisation. SARS's leadership understands the importance of elevated levels of employee engagement, and are committed to driving relevant initiatives to improve engagement, as it is seen as paramount to the successful achievement of the organisation's strategic objectives.

## Health and Wellness

As required by the Occupational Health and Safety (OHS) Act (85 of 1993), SARS needs to ensure that it is compliant with the requirements of the Act.

SARS implemented an Occupational Health and Safety Metric to measure the compliance rate throughout the organisation.

- The OHS Metric baseline reviews were conducted in January 2018, and an overall Legal Compliance Index was established at 74.78%.
- The compliance level established during March 2018 already indicated an improvement to 85.70%.
- The March 2018 compliance achievement has been set as the baseline for the next performance cycle, with an expected improvement in compliance of up to 88%.

In addition to the work being done to ensure compliance with legislation, as well as the regular measurement, the SARS EXCO therefore agreed to include the Health and Safety compliance level on their respective scorecards.

## Oversight Statistics

### Average Cost to Company per Division

Division	Personnel Expenditure (CTC) (R'000)	% of Personnel Expenditure to Total Personnel Cost (CTC)	Number of employees	Average Cost per Employee (R'000)
Business and Individual Tax	1 548 250 017	23.75%	4 054	381 907
Customs and Excise	1 027 513 401	15.76%	2 352	436 868
Digital Information and Technology	496 218 479	7.61%	693	716 044
Enforcement	1 675 831 578	25.71%	3 398	493 182
Finance	438 848 264	6.73%	904	485 452
Governance, International Relations, Strategy and Communications	419 805 108	6.44%	478	878 253
Human Capital and Development (Including Trainees)	393 524 198	6.04%	788	499 396
Internal Audit	58 069 592	0.89%	81	716 909
Legal Counsel	309 630 703	4.75%	390	793 925
SARS Operating Model	94 832 611	1.45%	168	564 480
Tax Customs and Excise Institute	56 659 693	0.87%	73	776 160
<b>Total</b>	<b>6 519 183 643</b>	<b>-</b>	<b>13 379</b>	<b>487 270</b>

### Average Cost to Company per Occupational Level

Occupational Levels	Personnel Expenditure (CTC) (R'000)	% of Personnel Expenditure to Total Personnel Cost (CTC)	Number of employees	Average Cost per Employee (R'000)
Top Management	22 122 656	0.34%	6	3 687 109
Senior Management	719 720 985	11.04%	474	1 518 399
Professionally qualified, experienced specialists and mid-management	2 723 424 486	41.78%	3 518	774 140
Skilled technical and academically qualified workers, junior management, supervisors, foremen, superintendents	2 670 297 812	40.96%	7 693	347 107
Semi-skilled and discretionary decision making	368 130 954	5.65%	1 609	228 795
Unskilled and defined decision making	15 486 751	0.24%	79	196 035
<b>Total</b>	<b>6 519 183 643</b>	<b>-</b>	<b>13 379</b>	<b>487 270</b>

## Staff Movement

Occupational Levels	Employment at beginning of period	Employment at end of the period	Change in Headcount
Top Management	6	6	0
Senior Management	459	474	15
Professional qualified	3 530	3 518	-12
Skilled	7 730	7 693	-37
Semi-skilled	1 771	1 609	-162
Unskilled	87	79	-8
<b>Total</b>	<b>13 583</b>	<b>13 379</b>	<b>-204</b>

## Appointments

Occupational Levels	Internal Appointments	External Appointments	% Internal Appointments
Top Management	1	3	0.11%
Senior Management	28	16	2.99%
Professional qualified	224	45	23.96%
Skilled	623	764	66.63%
Semi-skilled	59	247	6.31%
Unskilled	0	0	0.00%
<b>Total</b>	<b>935</b>	<b>1 075</b>	

## Termination Reasons

Reason	Number	% of Total Staff Exits
Death	43	3.36%
Resignation	868	67.87%
Retirement	114	8.91%
Termination ER*	254	19.86%
Other	0	0.00%
<b>Total</b>	<b>1 279</b>	<b>-</b>

\* Terminations include seasonal/Graduate expiry of contracts

## Employment and Vacancies

Occupational Levels	2017/18 Number of Employees ( <i>Permanent, Seasonal and Trainees</i> )	2017/18 Vacancies at year end ( <i>Estimated based on the available funding</i> )	% of Vacancy Rate
Top Management	6	3	33.33%
Senior Management	474	47	9.02%
Professionally qualified, experienced specialists and middle management	3 518	331	8.60%
Skilled technical and academically qualified workers, junior management, supervisors, foremen, superintendents	7 693	515	6.27%
Semi-skilled and discretionary decision making	1 609	21	1.29%
Unskilled and defined decision making	79	1	1.25%
<b>Total</b>	<b>13 379</b>	<b>918</b>	<b>6.42%</b>

## Employment Equity Disability Representation per Occupational Level

Occupational Levels	Male	Female	Grand Total	Disability Ratio
Top Management	0	0	0	0.00%
Senior Management	5	2	7	2.72%
Professionally qualified, experienced specialists and middle management	31	31	62	24.12%
Skilled technical and academically qualified	50	74	124	48.25%
Semi-Skilled	28	35	63	24.51%
Unskilled	1	-	1	0.39%
<b>Total</b>	<b>115</b>	<b>142</b>	<b>257</b>	<b>1.92%</b>

FINANCIAL  
INFORMATION

PART FIVE



## Report of the Audit and Risk Committee

We are pleased to present our report for the financial year ended 31 March 2018 in terms of Treasury Regulations 3.1.1.9 and 10, whereby the Audit and Risk Committee is required to report, amongst others, on the effectiveness of the internal controls, the quality of the management reports submitted in terms of the Division of Revenue Act, as well as its evaluation of the annual financial statements.

### Audit and Risk Committee Members and Attendance

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

The composition of the Audit and Risk Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. The Audit and Risk Committee consisted of four external members for the period April 2017 to October 2017. Ms Nonkululeko Gobodo resigned on 31 October 2017. For the period November 2017 to March 2018, the Audit and Risk committee consisted of three external members.

### Audit and Risk Committee Attendance

Audit Committee Members	26 May 2017	28 July 2017	02 Nov 2017	24 Nov 2017
<u>Sathie Gounden:</u> B Compt (Unisa); Higher Diploma in Accounting (University of Durban-Westville) Chartered Accountant (SA) Certificate in Forensic Accounting and Fraud Examination (University of Pretoria) Chartered Director (SA) Executive Leadership Development Institute Programme (Harvard Business School and NABA) Certificate of Mediator Accreditation (Conflict Dynamics)	√	√	√	√
<u>Mmakgolo Meta Maponya:</u> B Com Accounting (Wits) B Com Honours (UKZN) Chartered Accountant (SA) Financial Services Board Regulatory Examinations: RE1, RE3, RE5	X	√	√	X
<u>Thabiso Gerald Ramasike:</u> B Comm (UJ) CAIB (SA) – (Institute of Bankers of SA) Senior Executive Development Programme (GIBS) Global International Executive Development Programme – (Rotmann School of Management and York University Canada)	√	√	√	√
<u>Nonkululeko Gobodo:</u> B Compt (UNISA); Chartered Accountant (SA)	√	√	Resigned on 31 October 2017	

## Audit and Risk Committee Responsibilities

The Audit and Risk 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 and Risk Committee has regulated its affairs in compliance with its Terms of Reference, and has discharged all its responsibilities as contained therein.

## The Effectiveness of Internal Control

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. From the various reports issued by the Internal Audit function, the External Audit Report on the Annual Financial Statements and management letters of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures has been reported. However, the internal control environment had regressed during the year under review. Management has given the Audit and Risk Committee the assurance that processes are put in place to improve the system of internal control.

In line with the PFMA and the King IV Report on Corporate Governance, the Internal Audit function provided the Audit and Risk 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 Quality of the Quarterly Management Reports

The Audit and Risk Committee has reviewed the quarterly management reports and is satisfied with the quality thereof.

## Internal Audit Function

The Audit and Risk Committee is satisfied that Internal Audit had properly discharged its functions and responsibilities in the year under review. Internal audit has undertaken a Quality Assessment Review (QAR) by the Institute of Internal Auditors South Africa, and has achieved a Generally Conforms rating to the International Standards for The Professional Practice of Internal Auditing. A Generally Conforms rating is a milestone in meeting the professional standards required of internal auditors, and gives assurance of the sound internal audit function.

## Enterprise Risk Management (ERM)

The Enterprise Risk Management function has, in consultation with the Audit and Risk Committee, embarked on a multi-year journey to implement a new risk approach, adapting the key learnings from King IV and the ISO 3100. The Executive Committee held a risk workshop during the year, where the strategic profile was identified. A new risk governance framework has been developed, and this has introduced Divisional Risk Management Committees (DRMC), where each division hosts a quarterly risk workshop to determine their respective high-end operational risk profile. The revised divisional and strategic risk profiles have been submitted to the Audit and Risk committee for oversight and commentary to improve both the process and the profiles.

The Audit and Risk Committee is satisfied with the scope and direction taken by ERM to ensure SARS develops and implements an appropriate risk management approach consistent with the needs and aspirations of the organisation, and designed to strengthen decision making capabilities at all levels of the organisation.

## Evaluation of Financial Statements

The Audit and Risk Committee has:

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





## Auditor-General's Report

The Audit and Risk 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.

The Audit and Risk Committee confirms that it has been actively involved throughout the audit process and has been thoroughly appraised of the issues giving rise to the audit opinion.

**Sathie Gounden**

Chairperson of the Audit and Risk Committee

3 August 2018

# Annual Financial Statements Own-Accounts for the year ended 31 March 2018

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The financial statements set out on pages 113 to 168, which have been prepared on the going concern basis, were approved and signed by:



**Mark Kingon**  
Acting Commissioner  
South African Revenue Service  
31 July 2018

# Report of the Auditor-General to Parliament on South African Revenue Service Own-Accounts

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the South African Revenue Service (SARS) Own-Accounts and its subsidiary set out on pages 113 to 168, which comprise the consolidated and separate statement of its financial position as at 31 March 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of SARS Own-Accounts and its subsidiary as at 31 March 2018, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Other matter

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

### Unaudited supplementary schedule

7. The supplementary information set out on pages 169 to 172 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

## Responsibilities of the accounting authority for the consolidated and separate financial statements

8. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements, in accordance with the SA Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing SARS Own-Accounts and its subsidiary's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern, and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

## Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

10. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
11. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the SARS Own-Accounts for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Outcome 1 – Increased Customs and Excise Compliance	63 – 64
Outcome 2 – Increased Tax Compliance	64 – 68
Outcome 3 – Increased Ease and Fairness of Doing Business with SARS	68 – 69



15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
- Outcome 1 – Increased Customs and Excise Compliance
  - Outcome 2 – Increased Tax Compliance
  - Outcome 3 – Increased Ease and Fairness of Doing Business with SARS

### Other matters

17. I draw attention to the matters below.

### Achievement of planned targets

18. Refer to the annual performance report on pages 63 to 72 for information on the achievement of planned targets for the year and explanations provided for the under- or over achievement of a number of targets.

### Adjustment of misstatements

19. I identified misstatements in the annual performance report submitted for auditing. These misstatements were on the reported performance information for outcome 1 – Increased Customs and Excise Compliance as well as outcome 2 – Increased Tax Compliance. As management subsequently corrected the annual performance report by expanding on the explanations of variances relating to certain targets, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of SARS Own-Accounts with specific matters in key legislation. I performed procedures to identify findings, but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislation are as follows:

### Expenditure management

22. Performance bonuses relating to employees in the management structure were paid without the Minister's approval, contrary to section 18(3) of the SARS Amendment Act of South Africa, 2002 (Act No. 46 of 2002).
23. Effective steps were not taken to prevent irregular expenditure amounting to R4 352 million relating to performance bonuses, as disclosed in note 38 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

### Contract management

24. A contract was extended without the approval of the National Treasury, contrary to National Treasury Instruction Note 3 of 2016-17.

## Other information

25. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the Commissioner's report and the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
26. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
27. In connection with my audit, my responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
28. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
29. I have nothing to report in this regard.

## Internal control deficiencies

30. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation, however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Financial and performance management

31. Management was unable to ensure that the bonuses paid to employees in the management structure were approved by the Minister. Management did also not ensure that there was adherence to supply chain management regulations, as contracts were extended in 2016 without appropriate approval from the National Treasury. These transgressions resulted in the material non-compliance with relevant legislation.

## Other reports

32. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in SARS Own-Accounts financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
33. A Commission of Inquiry was established by the President of the Republic of South Africa to look into administrative and governance matters within SARS. The inquiry is still in progress and is expected to be completed by the end of November 2018.

*Auditor-General*

Pretoria  
31 July 2018



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## Annexure – Auditor-General’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
  - Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit 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 public entity’s internal control.
  - Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
  - Conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity and its subsidiary’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty, or if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a public entity to cease continuing as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group, to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence, and where applicable, related safeguards.

# Report by the SARS Accounting Authority for the year ended 31 March 2018

## Introduction

The Accounting Authority presents this Annual Report that forms part of the Annual Financial Statements of The South African Revenue Service (SARS) Own-Accounts for the year ended 31 March 2018. Specific reference has been made to Administered Revenue where applicable, otherwise, all other statistics quoted are for Own-Accounts.

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

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

## 1. Executive Committee Members

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

The EXCO members as at 31 March 2018 were:

Mark Kingon	Acting Commissioner for SARS and EXCO Chairperson (12 days)
Luther Lebelo	Acting Chief Officer: Human Capital and Development (2 months)
Mmamathe Makhekhe-Mokhuane	Chief Officer : Digital Information Services and Technology (11 months)
Johnstone Makhubu	Acting Chief Officer: Finance (8 months)
Mogola Makola	Chief Officer : Enforcement (9 months)
Hlengani Mathebula	Chief Officer : Governance, International Relations, Strategy and Communications
Refiloe Mokoena	Chief Officer: Legal Counsel (11 months)
Teboho Mokoena	Chief Officer : Customs and Excise (2 months)
Fabian Murray	Acting Chief Officer : Business and Individual Taxes (12 days)

## Executive Committee appointments and resignations

Ms Mmamathe Makhekhe-Mokhuane and Ms Refiloe Mokoena were appointed on 1 May 2017 and Ms Mogola Mokola was appointed 1 July 2017.

Mr Matsobane Matlwa (Chief Officer: Finance) resigned on 25 August 2017; Mr Jed Michaletos (Chief Officer: Customs and Excise) resigned on 7 February 2018 and Mr Jonas Makwakwa (Chief Officer: Business and Individual Taxes) resigned on 14 March 2018.

Mr Thomas Moyane (SARS Commissioner) was suspended on 19 March 2018.



## 2. Organisational Structure

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

## 3. 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 tax and customs legislation
- Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade.

## 4. Review of Operations and Results (Amounts Disclosed In R'000) Own-Accounts

The Revenue for the year was made up as follows:

	% change	2018	2017
Operating revenue	2.10%	10 229 491	10 019 080
Transfer from Government	2.09%	10 218 198	10 009 152
Rendering of services	13.75%	11 293	9 928
Other revenue	(53.92%)	543 396	1 179 175
Interest received	(22.32%)	197 551	254 326
Other income	(62.61%)	345 845	924 849
	<b>(3.80%)</b>	<b>10 772 887</b>	<b>11 198 255</b>

The grant from National Treasury increased in line with the approvals obtained through the Medium Term Expenditure Framework (MTEF).

Other revenue consists mainly of commissions earned from acting as an 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 interest received fluctuated in line with interest rates and funds temporarily available for short term investment.

The surplus for the year was as follows:

	2018	2017
Balance accumulated surplus at 1 April as previously reported	2 787 690	2 358 339
Prior year adjustments	-	(3 909)
Restated balance 1 April	2 787 690	2 354 430
Net surplus/(deficit) for the year	(113 076)	433 260
Surrender of surplus balance	-	-
<b>Balance accumulated surplus at 31 March</b>	<b>2 674 614</b>	<b>2 787 690</b>

## Revenue Accounts (Amounts Disclosed In R'000)

Revenue for the year was R1 279 006 569 (2017: R1 201 451 617). Revenue Accounts do not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

Revenue in respect of Revenue Accounts comprises of the taxes, levies, duties, fees and other monies collected during the year. The operating expenditure for Revenue Accounts is provided for in the Own-Accounts budget.

## Collections

	% change	2018	2017
Total revenue	6.46%	1 279 006 569	1 201 451 617

Revenue collected is informed by the prevailing economic conditions, their effect on the South African economy and the overall level of compliance to revenue laws.

## 5. 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.

## 6. Review of the Financial Position

### Reserves and accumulated surplus

Reserves and surpluses consist of the asset revaluation reserve and accumulated surpluses.

### Assets

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

## 7. Surrender of Surplus Funds

SARS obtained approval to retain R1.75 billion of the R3.37 billion cash balance as at 31 March 2016. National Treasury utilised the balance through a reduction in the March 2017 grant of R645 million, and ring-fenced the balance to be used over the medium term (2017/18: R860 million and 2018/19: R117 million).

In the 2018 Estimated National Expenditure final allocation letter, SARS received significant grant reductions over the MTEF period, and decided to allocate the full R977 million to the 2018/19 financial year. This was done to supplement the reduced grant in 2018/19 to ensure operational continuity as far as possible.

## 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 currently no events subsequent to the balance sheet date that require disclosure.

## 10. Addresses

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

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

Addresses for other SARS offices are available from SARS upon request.



Mark Kingon  
Acting Commissioner  
South African Revenue Service  
31 July 2018

## Statement of Financial Position as at 31 March 2018

	Note(s)	Economic entity		Controlling Entity	
		2018	2017	2018	2017
		R '000	R '000	R '000	R '000
<b>Assets</b>					
<b>Current Assets</b>					
Inventory	25	38 330	-	38 330	-
Current tax receivable - controlled entity	9	825	469	-	-
Receivables from exchange transactions	3	84 349	61 629	83 144	59 069
Prepayments	24	177 946	71 351	177 213	70 653
Cash and cash equivalents	4	2 543 600	2 535 674	2 476 607	2 454 244
		<b>2 845 050</b>	<b>2 669 123</b>	<b>2 775 294</b>	<b>2 583 966</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	5	1 899 493	1 976 068	1 896 078	1 972 665
Intangible assets	6	777 958	900 085	1 248 425	1 256 972
Investment in controlled entity	7	-	-	-	-
Loan to controlled entity	8	-	-	42 217	80 542
		<b>2 677 451</b>	<b>2 876 153</b>	<b>3 186 720</b>	<b>3 310 179</b>
<b>Total Assets</b>		<b>5 522 501</b>	<b>5 545 276</b>	<b>5 962 014</b>	<b>5 894 145</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Finance lease obligation	10	12 627	6 499	12 588	6 465
Trade and other payables	11	666 418	558 682	674 719	562 052
VAT payable		1 289	748	-	-
Deferred income	12	977 430	860 435	977 430	860 435
Provisions	13	455 090	554 156	449 338	548 735
		<b>2 112 854</b>	<b>1 980 520</b>	<b>2 114 075</b>	<b>1 977 687</b>
<b>Non-Current Liabilities</b>					
Finance lease obligation	10	13 774	7 354	13 753	7 294
Operating lease liability		131 915	170 971	131 517	170 574
Deferred income	12	-	117 031	-	117 031
Deferred tax	22 & 35	6 947	8 485	-	-
Employee benefits	26 & 27	257 773	211 040	257 773	211 040
		<b>410 409</b>	<b>514 881</b>	<b>403 043</b>	<b>505 939</b>
<b>Total Liabilities</b>		<b>2 523 263</b>	<b>2 495 401</b>	<b>2 517 118</b>	<b>2 483 626</b>
<b>Net Assets</b>		<b>2 999 238</b>	<b>3 049 875</b>	<b>3 444 896</b>	<b>3 410 519</b>
<b>Net Assets</b>					
Asset revaluation reserve	14	324 624	262 186	324 624	262 186
Accumulated surplus		2 674 614	2 787 689	3 120 272	3 148 333
<b>Net Assets</b>		<b>2 999 238</b>	<b>3 049 875</b>	<b>3 444 896</b>	<b>3 410 519</b>

\* See Note 35

## Statement of Financial Performance for the year ended 31 March 2018

	Note(s)	Economic entity		Controlling Entity	
		2018	2017	2018	2017
			*Restated		
		R '000	R '000	R '000	R '000
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Rendering of services	15	11 293	9 928	-	-
Other income	16	345 845	924 849	346 263	925 135
Interest received		197 551	254 326	202 330	258 056
Gain on disposal of assets		-	2 091	-	2 159
<b>Total revenue from exchange transactions</b>		<b>554 689</b>	<b>1 191 194</b>	<b>548 593</b>	<b>1 185 350</b>
<b>Revenue from non-exchange transactions</b>					
Transfers from National Treasury	15	10 218 198	10 009 152	10 218 198	10 009 152
<b>Total revenue from non-exchange transactions</b>		<b>10 218 198</b>	<b>10 009 152</b>	<b>10 218 198</b>	<b>10 009 152</b>
<b>Total revenue</b>		<b>10 772 887</b>	<b>11 200 346</b>	<b>10 766 791</b>	<b>11 194 502</b>
<b>Expenditure</b>					
Employee cost		7 524 522	7 249 615	7 433 028	7 174 527
Depreciation and amortisation		598 394	533 802	588 970	524 378
Impairment loss	17	96 161	108 705	105 212	116 512
Finance costs	18	4 012	3 250	4 003	3 234
Operating leases	30 & 35	514 340	519 302	512 184	517 349
Other expenses		21 337	20 379	21 563	20 251
Administrative expenses		1 081 367	1 116 750	1 078 257	1 113 786
Loss on disposal of assets		102	-	95	-
Professional and special services	35	1 035 825	1 210 298	1 051 540	1 225 916
<b>Total expenditure</b>		<b>10 876 060</b>	<b>10 762 101</b>	<b>10 794 852</b>	<b>10 695 953</b>
<b>Surplus/(deficit) before taxation</b>		<b>(103 173)</b>	<b>438 245</b>	<b>(28 061)</b>	<b>498 549</b>
Taxation	19 & 35	(9 903)	(4 985)	-	-
<b>Surplus/(deficit) for the year</b>		<b>(113 076)</b>	<b>433 260</b>	<b>(28 061)</b>	<b>498 549</b>

\* See Note 35

## Statement of Changes in Net Assets as at 31 March 2018

	Asset revaluation reserve	Accumulated surplus	Total net assets
	R '000	R '000	R '000
<b>Economic entity</b>			
Opening balance as previously reported	224 244	2 358 338	2 582 582
Prior year adjustments *	-	(3 909)	(3 909)
<b>Balance at 01 April 2016 restated</b>	<b>224 244</b>	<b>2 354 429</b>	<b>2 578 673</b>
Changes in net assets			
Surplus as restated *	-	433 260	433 260
Surplus in revaluation of land and buildings	43 960	-	43 960
Depreciation on revalued portion of assets	(6 018)	-	(6 018)
<b>Total changes</b>	<b>37 942</b>	<b>433 260</b>	<b>471 202</b>
Opening balance as restated *	262 186	2 786 867	3 049 053
Prior year adjustments *	-	823	823
<b>Balance at 01 April 2017 restated *</b>	<b>262 186</b>	<b>2 787 690</b>	<b>3 049 876</b>
Changes in net assets			
(Deficit) for the year	-	(113 076)	(113 076)
Surplus in revaluation of land and buildings	72 088	-	72 088
Depreciation on revalued portion of assets	(9 650)	-	(9 650)
<b>Total changes</b>	<b>62 438</b>	<b>(113 076)</b>	<b>(50 638)</b>
<b>Balance at 31 March 2018</b>	<b>324 624</b>	<b>2 674 614</b>	<b>2 999 238</b>

Note(s)

14

<b>Controlling entity</b>			
<b>Balance at 01 April 2016</b>	<b>224 244</b>	<b>2 649 784</b>	<b>2 874 028</b>
Changes in net assets			
Surplus for the year	-	498 549	498 549
Surplus in revaluation of land and buildings	43 960	-	43 960
Depreciation on revalued portion of assets	(6 018)	-	(6 018)
<b>Total changes</b>	<b>37 942</b>	<b>498 549</b>	<b>536 491</b>
<b>Balance at 01 April 2017</b>	<b>262 186</b>	<b>3 148 333</b>	<b>3 410 519</b>
Changes in net assets			
(Deficit) for the year	-	(28 061)	(28 061)
Surplus in revaluation of land and buildings	72 088	-	72 088
Depreciation on revalued portion of assets	(9 650)	-	(9 650)
<b>Total changes</b>	<b>62 438</b>	<b>(28 061)</b>	<b>34 377</b>
<b>Balance at 31 March 2018</b>	<b>324 624</b>	<b>3 120 272</b>	<b>3 444 896</b>

Note(s)

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\* See Note 35

## Cash Flow Statement for the year ended 31 March 2018

	Note(s)	Economic entity		Controlling Entity	
		2018	2017	2018	2017
			*Restated		
		R '000	R '000	R '000	R '000
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Rendering of services		12 811	7 743	-	-
Transfers from National Treasury		10 218 198	9 363 676	10 218 198	9 363 676
Interest received		197 842	255 590	191 895	251 423
Other income		321 810	930 954	321 810	931 240
		<b>10 750 661</b>	<b>10 557 963</b>	<b>10 731 903</b>	<b>10 546 339</b>
<b>Payments</b>					
Employee costs		(7 581 418)	(7 232 448)	(7 490 815)	(7 157 797)
Suppliers		(2 725 888)	(3 044 191)	(2 730 458)	(3 066 019)
VAT paid		541	(1 560)	-	-
Tax paid	9	(11 797)	(3 940)	-	-
		<b>(10 318 562)</b>	<b>(10 282 139)</b>	<b>(10 221 273)</b>	<b>(10 223 816)</b>
<b>Net cash flows from operating activities</b>	20	<b>432 099</b>	<b>275 824</b>	<b>510 630</b>	<b>322 523</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	5	(221 016)	(768 596)	(219 719)	(767 455)
Proceeds from sale of property, plant and equipment		2 325	2 759	2 325	2 742
Acquisition of intangible assets	6	(214 018)	(394 905)	(319 452)	(471 171)
<b>Net cash flows from investing activities</b>		<b>(432 709)</b>	<b>(1 160 742)</b>	<b>(536 846)</b>	<b>(1 235 884)</b>
<b>Cash flows from financing activities</b>					
Repayment of loan by controlled entity		-	-	40 000	-
Finance lease and interest payments		8 536	(2 568)	8 579	(2 621)
<b>Net cash flows from financing activities</b>		<b>8 536</b>	<b>(2 568)</b>	<b>48 579</b>	<b>(2 621)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>		<b>7 926</b>	<b>(887 486)</b>	<b>22 363</b>	<b>(915 982)</b>
Cash and cash equivalents at the beginning of the year		2 535 674	3 423 160	2 454 244	3 370 226
<b>Cash and cash equivalents at the end of the year</b>	4	<b>2 543 600</b>	<b>2 535 674</b>	<b>2 476 607</b>	<b>2 454 244</b>

\* See Note 35

## Statement of Comparison of Budget and Actual Amounts

	Approved Budget	Actual amounts on comparable basis	Difference between final budget and actual
	R'000	R '000	R '000
<b>Controlling Entity</b>			
<b>Statement of Financial Position</b>			
<b>Assets</b>			
<b>Current Assets</b>			
Inventory	-	38 330	38 330
Receivables from exchange transactions	70 758	83 144	12 386
Prepayments	84 177	177 213	93 036
Cash and cash equivalents	130 552	2 476 607	2 346 055
	<b>285 487</b>	<b>2 775 294</b>	<b>2 489 807</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2 031 768	1 896 078	(135 690)
Intangible assets	1 206 510	1 248 425	41 915
Loan to controlled entity	60 452	42 217	(18 235)
	<b>3 298 730</b>	<b>3 186 720</b>	<b>(112 010)</b>
<b>Total Assets</b>	<b>3 584 217</b>	<b>5 962 014</b>	<b>2 377 797</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	4 101	12 588	(8 487)
Trade and other payables	643 227	674 719	(31 492)
Deferred income	-	977 430	(977 430)
Provisions	665 262	449 338	215 924
	<b>1 312 590</b>	<b>2 114 075</b>	<b>(801 485)</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	1 604	13 753	(12 149)
Operating lease liability	187 129	131 517	55 612
Employee benefits	187 680	257 773	(70 093)
	<b>376 413</b>	<b>403 043</b>	<b>(26 630)</b>
<b>Total Liabilities</b>	<b>1 689 003</b>	<b>2 517 118</b>	<b>(828 115)</b>
<b>Net Assets</b>	<b>1 895 214</b>	<b>3 444 896</b>	<b>1 549 682</b>
<b>Net Assets</b>			
Asset revaluation reserve	224 545	324 624	100 079
Accumulated surplus	1 670 669	3 120 272	1 449 603
<b>Total Net Assets</b>	<b>1 895 214</b>	<b>3 444 896</b>	<b>1 549 682</b>

## Statement of Comparison of Budget and Actual Amounts

	Approved Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	
<b>Controlling entity</b>				
<b>Statement of Financial Performance</b>				
<b>Revenue</b>				
<b>Revenue from exchange transactions</b>				
Interest received	160 556	202 330	41 774	Note 1
Other income	308 616	346 263	37 647	Note 2
<b>Total revenue from exchange transactions</b>	<b>469 172</b>	<b>548 593</b>	<b>79 421</b>	
<b>Revenue from non-exchange transactions</b>				
Transfers from National Treasury	10 218 198	10 218 198	-	Note 3
<b>Revenue from non-exchange transactions</b>	<b>10 218 198</b>	<b>10 218 198</b>	<b>-</b>	
<b>Total Revenue</b>	<b>10 687 370</b>	<b>10 766 791</b>	<b>79 921</b>	
<b>Expenditure</b>				
Employee cost	8 014 719	7 433 028	581 691	Note 4
Depreciation and amortisation	785 727	588 970	196 757	
Impairment loss	1	105 212	(105 211)	Note 5
Finance costs	2 076	4 003	(1 927)	
Operating leases	621 075	512 184	108 891	Note 6
Other expenses	22 333	21 563	770	
Administrative expenses	1 262 774	1 078 257	184 517	Note 7
Professional and special services	1 162 202	1 051 540	110 662	Note 7
<b>Total expenditure</b>	<b>11 870 907</b>	<b>10 794 757</b>	<b>1 076 150</b>	
<b>Operating (deficit)</b>	<b>(1 183 537)</b>	<b>(27 966)</b>	<b>1 155 571</b>	
Gain/(Loss) on disposal of assets	52	(95)	(147)	
<b>(Deficit)</b>	<b>(1 183 485)</b>	<b>(28 061)</b>	<b>1 155 424</b>	Note 8



**Reference**

- Note 1 National Treasury authorised that SARS retain the unapproved portion of the cash surplus of R977 million in exchange for receiving a reduced baseline allocation over the Medium Term. This resulted in an accumulation of interest in the current year. This ring-fenced amount will be utilised to supplement extensive budget reductions in the 2018/19 financial year.
- Note 2 The variance is mainly due to higher than anticipated income on Unemployment Insurance Fund (UIF) commission due to higher UIF collections on behalf of the Department of Labour, as a result of annual increases in remuneration.
- Note 3 An amount of R35 030 million included in the transfers from National Treasury relates to ring fenced funding for the Office of the Tax Ombudsman (OTO). OTO expenses are also included in the SARS expenditure.
- Note 4 The variance against Employee Cost is mainly as a result of increased time lag in filling vacancies due to the implementation of vacancy committees to ensure backfills occur in critical areas, as well as scarcity of high end skills. These savings were reprioritised to fund key projects.
- Note 5 The loss mainly consists of the impairment of Property, Plant and Equipment and Intangible Assets based on the Impairment policy and GRAP 21.
- Note 6 The variance is due to the budgeted amount providing for planned lease payments, and the actual amount represent the straight-line of lease payments as per GRAP 13. The variance is also as a result of footprint expansion planned for in the financial year that did not realise, and will only realise in future years. Further rental savings were realised as actual escalation rates were lower than planned due to new contracts negotiated at lower rates. Savings were reprioritised to fund key projects.
- Note 7 The variance is mainly due to allowable deferment of some building maintenance and ongoing cost containment measures enforced, stricter budget management and some projects planned for, that will continue in the new financial year.
- Note 8 The deficit is as a result of depreciation/amortisation not budgeted for. This is replaced by capital expenditure budget that is not allocated to the Statement of Financial Performance. A further contributor to the deficit is the approved retained funding utilised that doesn't form part of the current year's budgeted revenue.

## Statement of Comparison of Budget and Actual Amounts

	Approved Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	
<b>Controlling Entity</b>				
<b>Cash Flow Statement</b>				
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Transfer from National Treasury	10 218 198	10 218 198	-	
Interest received	160 556	191 895	31 339	Note 1
Other income	308 616	321 810	13 194	Note 2
	<b>10 687 370</b>	<b>10 731 903</b>	<b>44 533</b>	
<b>Payments</b>				
Employee costs	7 868 992	7 490 813	378 179	Note 3
Suppliers	3 182 728	2 730 458	452 270	Note 4
Finance costs	2 148	-	2 148	
	<b>11 053 868</b>	<b>10 221 271</b>	<b>832 597</b>	
<b>Net cash flows from operating activities</b>	<b>(366 498)</b>	<b>510 632</b>	<b>877 130</b>	
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(403 299)	(219 719)	183 580	
Proceeds from sale of property, plant and equipment	-	2 325	2 325	
Acquisition of intangible assets	(59 229)	(319 452)	(260 223)	
<b>Net cash flows from investing activities</b>	<b>(462 528)</b>	<b>(536 846)</b>	<b>(74 318)</b>	Note 5
<b>Cash flows from financing activities</b>				
Finance lease and interest payments	(6 131)	8 579	14 710	
Repayment of controlled entity loan	10 000	40 000	30 000	
<b>Net cash flows from financing activities</b>	<b>3 869</b>	<b>48 579</b>	<b>44 710</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(825 157)</b>	<b>22 365</b>	<b>847 522</b>	
Cash and cash equivalents at the beginning of the year	955 710	2 454 244	1 498 534	
<b>Cash and cash equivalents at the end of the year</b>	<b>130 553</b>	<b>2 476 609</b>	<b>2 346 056</b>	

**Reference**

- Note 1 National Treasury authorised that SARS retain the unapproved portion of the cash surplus of R977 million in exchange for receiving a reduced baseline allocation over the Medium Term. This resulted in an accumulation of interest in the current year. This ring-fenced amount will be utilised to supplement extensive budget reductions in the 2018/19 financial year.
- Note 2 The variance is mainly due to higher than anticipated income on Unemployment Insurance Fund (UIF) commission due to higher UIF collections on behalf of the Department of Labour, as a result of annual increases in remuneration.
- Note 3 The variance against Employee Cost is mainly as a result of increased time lag in filling vacancies due to the implementation of vacancy committees to ensure backfills occur in critical areas as well as scarcity of high end skills. These savings were reprioritised to fund key projects.
- Note 4 The variance is due to footprint expansion planned for in the financial year that did not realise and will only realise in future years, rental savings realised due to lower than planned rate negotiations, allowable deferment of some building maintenance, ongoing cost containment measures and stricter budget management. Savings were reprioritised to fund key projects.
- Note 5 The variance relates to multi-year Annual Performance Plan projects delivered in the financial year through approved National Treasury retention funding, as well as savings in the operational budget that were re-appropriated to fund key capital projects.



### 1. Presentation of Financial Statements

The reporting activity of the South African Revenue Service (SARS) is divided into Revenue Accounts and Own-Accounts. Revenue Accounts reports on assets, liabilities and revenue that are controlled by National Government and managed by SARS on behalf of National Government. Own-Accounts reports on assets, liabilities, revenue and expenses associated with the administration and collection of taxes and duties. These activities are funded by transfers from National Treasury.

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with section 91(1) of the Public Finance Management Act (Act 1 of 1999).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Consolidation

##### **Basis of consolidation**

The economic entity's Annual Financial Statements include those of the controlling entity and its controlled entity.

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

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

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

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

#### 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 and estimates include:

##### **Loans and receivables**

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

## 1.2 Significant judgements and sources of estimation uncertainty (continued)

### Fair value estimation

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

### Impairment testing

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

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The event is defined as the inability to verify an asset for a period of two years upon which the carrying value is impaired to zero. If the asset remains unverified, it will be written-off on the subsequent reporting date.

If there is objective evidence that an impairment loss on the carrying value of assets has been incurred, the amount of the loss is the difference between the asset's carrying amount and estimated recoverable amount. The amount is recognised in the statement of financial performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal does not result in the carrying amount exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed.

### Provisions

Provisions were raised and management was prudent in determining estimates based on the information available. Additional disclosure of these estimates of provisions is included in note 13 - Provisions.

### Taxation - controlled entity

This policy is not applicable to the controlling entity as it is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962. In respect of the controlled entity judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The controlled entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Provision for doubtful debt

On trade and other receivables, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the trade and other receivables carrying amount and the present value of estimated future cash flows discounted at the applicable ministerial rate, computed at initial recognition.

In the assessment for impairment the following methodologies are used at the end of each financial year:

- 100% of the out of service debt (excluding credit balances) is classified as impaired; and
- Any additional debts that may be deemed irrecoverable.

#### Useful lives and residual value of assets

As described in the accounting policy below, the economic entity reviews the estimated useful lives and residual values of property, plant and equipment and intangible assets at the end of each reporting period.

#### Cash-generating assets

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

- Cash-generating assets are identified by management as assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset. Assets in the controlling entity do not generate any cash inflows, therefore only assets in the controlled entity are considered to be cash-generating assets. Management considers non-cash-generating assets, as assets other than cash-generating assets.

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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

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

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

### 1.3 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amounts 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 end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is not eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The cost price will reflect the grossed up value instead of the revalued amount. This does not have any effect on the values as per the statement of the financial position.

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

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

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

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

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

Item	Average useful life
Land	Unlimited useful life
Buildings	15 to 50 years
Plant and equipment	10 years
Furniture, fittings and office equipment	3 to 10 years
Land and water vehicles	5 to 8 years
Information technology equipment	2 to 8 years
Leasehold improvements	Over the life of the asset or the lease period whichever is the shorter
Generators	10 years
Security equipment	3 to 5 years
Assets under construction	No useful life as assets are not available and/or ready for use

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the economic entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.



### 1.3 Property, plant and equipment (continued)

The economic entity assesses at each reporting date whether there is any indication that the economic entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the economic entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

The economic and controlling entities separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).

The economic and controlling entities disclose relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

### 1.4 Intangible assets

An asset is identifiable as an intangible asset when it:

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

An intangible asset is recognised when:

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

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Cost 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 initial 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 or service potential.
- 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 impairment losses.



## 1.4 Intangible assets (continued)

The amortisation period, residual value and the amortisation method for intangible assets are reviewed at each reporting date.

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

Item	Useful life
Intellectual property and other rights (controlled entity)	10 years
Information technology software	3 to 8 years
Software under development	No useful life as assets are not available and/or ready for use

The economic entity discloses relevant information relating to assets under construction, in the notes to the financial statements (see note 6).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

## 1.5 Investment in controlled entity

### Economic entity financial statements

Investment in controlled entity is consolidated in the economic entity's financial statements. Refer to the accounting policy on consolidations (Note 1.1).

### Controlling entity financial statements

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

Investment in controlled entities that are accounted for in accordance with the accounting policy on financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

## 1.6 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

The controlled entity's concessionary loan is a loan granted on terms that are not market related.

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future

## 1.6 Financial instruments (continued)

cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

A financial asset is:

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

### Classification

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

Class	Measurement method
Loan to controlled entity	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Measurement method
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Employee benefits	Financial liability measured at fair value

## 1.6 Financial instruments (continued)

### Initial recognition

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

The entity recognises financial assets using trade date accounting (transaction date).

### Initial measurement of financial assets and financial liabilities

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

### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at fair value, and
- Financial instruments at amortised cost.

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

### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a recognised valuation technique. The objective of using a recognised valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

### Gains and losses

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

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

### Impairment and non-collectibility of financial assets

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

### Financial assets measured at amortised cost

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

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



### 1.6 Financial instruments (continued)

#### **Derecognition**

##### **Financial assets**

The entity derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, are settled, waived or when the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit using trade date accounting (transaction date).

##### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position upon settlement.

#### **Recognition**

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

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

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

### 1.7 Tax - Controlled Entity

#### **Current tax assets and liabilities**

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

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

#### **Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit or tax loss.

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

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



## 1.7 Tax - Controlled Entity (continued)

### Tax expense

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

## 1.8 Leases

### Finance leases

A lease is classified as a finance lease if it meets the finance lease criteria as per GRAP 13.

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

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

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

### Operating leases

A lease is classified as an operating lease if it does not meet the finance lease criteria as per GRAP 13. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability.

## 1.9 Inventory

Inventory is initially measured at cost.

Inventory is measured at the lower of cost and current replacement cost where they are held for distribution at no charge.

Current replacement cost is the cost the economic entity incurs to acquire the inventories on the reporting date.

The cost of inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition.

The cost of inventory is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventory having a similar nature and use to the economic and controlling entities.

### Transitional provision

The economic entity adopted GRAP 12 for inventory in 2018. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

## 1.10 Impairment of cash-generating assets - controlled entity

Cash-generating assets are those assets held by the controlled entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-oriented entity, it generates a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the

### 1.10 Impairment of cash-generating assets - controlled entity (continued)

systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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

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

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

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

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

#### Identification

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

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### Indication of impairment

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 controlled entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

### 1.10 Impairment of cash-generating assets - controlled entity (continued)

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

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

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

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

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

#### Reversal of impairment loss

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

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

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

### 1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.



### 1.11 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

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

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

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

### 1.12 Share capital - controlled entity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares as well as the loan received from the controlling entity are classified in the controlled entity's equity.

### 1.13 Employee benefits

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

#### Long-term employee benefits

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

- salaries and other contributions;
- short-term compensated absences where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; and
- bonus and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

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

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



### 1.13 Employee benefits (continued)

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

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

#### **Post-employment benefits: Defined contribution plans**

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense).

### 1.14 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 or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

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

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

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

A provision is used only for expenditure for which the provision was originally recognised. Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised but are disclosed in note 32.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.



### 1.15 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contractual commitments should be non-cancellable or only cancellable at significant cost and
- Contractual commitments relate to all project related cost approved and executed as per the Annual Performance Plan (APP) and as well as capital expenditure.

Contractual commitments exclude normal operational expenditure.

Disclosure in note 31.

### 1.16 Revenue from exchange transactions

Revenue from exchange transactions comprises of the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

#### **Measurement**

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

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the criteria per GRAP 9 are met.

### 1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions comprises of the increases in economic benefits relating to contributions received from National Treasury.

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

#### **Recognition**

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

#### **Measurement**

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

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



## 1.17 Revenue from non-exchange transactions (continued)

### Donations

Donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

## 1.18 Government grant

SARS's main source of income is an annual grant appropriated by Parliament and distributed by National Treasury to execute its mandate in terms of the SARS Act (No.34 of 1997).

## 1.19 Investment income

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

## 1.20 Translation of foreign currencies

### Foreign currency transactions

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

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous 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 Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

## 1.21 Comparative figures

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

## 1.22 Research and development expenditure

Cost on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

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

## 1.23 Budget information

The controlling entity is subject to appropriations of budgetary limits, which are given effect to, through authorising legislation.



### 1.23 Budget information (continued)

General purpose financial reporting by the controlling entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/04/01 to 2018/03/31.

This accounting policy applies only to the approved budget of the controlling entity.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

### 1.24 Related parties

The controlling entity has early adopted the standard on related parties as recommended by the ASB. The standard has been prospectively applied from 1 April 2016 in line with GRAP 3 - accounting policies, changes in accounting estimates and errors.

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

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

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

Close family members of a person considered to be a member of management are those family members including spouses and individuals who live together as spouses who may be expected to influence, or be influenced by each other in their dealings with the controlling entity.

### 1.25 Basis of preparation

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

## 2. New standards and interpretations

### 2.1 Standards and interpretations early adopted

The economic and controlling entities have chosen to adopt the following standards and interpretations early:

#### **GRAP 34: Separate Financial Statements**

The objective of this standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

The effective date of the standard has not yet been set by the Minister of Finance.

The impact of the standard is not material as the entity has applied the principles of GRAP 34 since obtaining the investment in International Frontier Technologies SOC Ltd.

#### **GRAP 35: Consolidated Financial Statements**

The objective of this standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities.

To meet this objective, the standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The effective date of the standard has not yet been set by the Minister of Finance.

The impact of the standard is not material as the entity has applied the principles of GRAP 35 since obtaining the investment in International Frontier Technologies SOC Ltd.

#### **GRAP 12 (as amended 2016): Inventories**

Amendments to the standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to the International Public Sector Accounting Standards (IPSAS) on Inventories (IPSAS 12) as a result of the International Public Sector Accounting Standards Board's (IPSASB) Improvements to IPSASs 2015 issued in March 2016.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The economic entity has early adopted the amendment for the first time in the 2018 financial statements.

The adoption of this amendment does not have a material impact on the results of the controlling entity, the controlling entity does however have inventory for the first time this financial year which resulted in more disclosure than would have previously been provided in the financial statements.

## 2. New standards and interpretations (continued)

### 2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been approved and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2018 but are not yet effective or relevant to its operations:

#### **GRAP 110 (as amended 2016): Living and Non-living Resources**

The objective of this standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources.

The effective date of the standard is not yet set by the Minister of Finance.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

Amendments to the standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The economic entity does not envisage the adoption of the amendment until such time as it becomes applicable to the economic entity's operations.

The impact of this amendment is currently being assessed.

#### **GRAP 108: Statutory Receivables**

The objective of this standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The effective date of the standard is not yet set by the Minister of Finance.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

### 3. Receivables from exchange transactions

The impact of this standard is currently being assessed.

Government departments	65 693	44 537	65 693	44 537
Trade debtors	1 573	2 904	-	-
Refundable deposits	4 262	4 176	4 201	4 114
Staff accounts receivables	4 516	3 251	4 513	3 251
Sundry receivables	3 926	1 987	4 358	2 393
Advance Tax Ruling (ATR) debtors	484	588	484	588
Interest receivable	3 895	4 186	3 895	4 186
	<b>84 349</b>	<b>61 629</b>	<b>83 144</b>	<b>59 069</b>

#### Fair value of receivables from exchange transactions

Trade and other receivables	<b>84 349</b>	<b>61 629</b>	<b>83 144</b>	<b>59 069</b>
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#### Receivables from exchange transactions past due but not impaired

At 31 March 2018, R4 698 857 (2017: R4 393 565) was past due but not impaired.

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

1 month past due	11	63	11	63
2 months past due	714	1 810	714	20
3 months past due	3 974	2 521	3 974	2 521

#### Receivables from exchange transactions impaired

As of 31 March 2018, receivables from exchange transactions of R2 793 220 (2017: R2 795 192) were impaired and provided for.

The ageing of these receivables from exchange transactions is as follows:

3 to 6 months	283	286	283	255
Over 6 months	2 510	2 509	2 510	2 540

Included in the provision for impairment for the controlling entity is an amount of R501 036 (2017: Rnil). A dispute between SARS and the landlord of the Nigel building in terms of tenant installation repayment exist and was handed over to legal.

#### Reconciliation of provision for impairment of receivables from exchange transactions

Opening balance	2 795	11 733	2 795	11 733
Provision for impairment	(367)	(3 628)	(367)	(3 628)
Amounts written off as uncollectible	365	(5 310)	365	(5 310)
	<b>2 793</b>	<b>2 795</b>	<b>2 793</b>	<b>2 795</b>

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

#### 4. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017	2018	2017
Bank balances	2 543 056	2 535 130	2 476 067	2 453 708
Cash on hand	544	544	540	536
	<b>2 543 600</b>	<b>2 535 674</b>	<b>2 476 607</b>	<b>2 454 244</b>

#### 5. Property, plant and equipment

Figures in Rand thousand (R'000)

Economic entity	2018			2017		
	Cost / Valuation	Movement	Carrying value	Cost / Valuation	Movement	Carrying value
Land	164 660	-	164 660	156 334	-	156 334
Buildings	762 055	(106 855)	655 200	707 694	(83 169)	624 525
Plant and equipment	135 004	(36 440)	98 564	90 493	(29 843)	60 650
Furniture, fittings and office equipment	414 077	(296 714)	117 363	415 083	(306 160)	108 923
Land and water vehicles	235 091	(130 020)	105 071	238 507	(118 954)	119 553
IT equipment	1 533 537	(976 111)	557 426	1 576 420	(894 324)	682 096
Leasehold improvements	720 192	(581 298)	138 894	682 445	(520 499)	161 946
Generators	75 248	(46 267)	28 981	73 617	(39 671)	33 946
Security equipment	193 673	(160 339)	33 334	178 295	(150 200)	28 095
	<b>4 233 537</b>	<b>(2 334 044)</b>	<b>1 899 493</b>	<b>4 118 888</b>	<b>(2 142 820)</b>	<b>1 976 068</b>

Figures in Rand thousand (R'000)

Controlling entity	2018			2017		
	Cost / Valuation	Movement	Carrying value	Cost / Valuation	Movement	Carrying value
Land	164 660	-	164 660	156 334	-	156 334
Buildings	762 055	(106 852)	655 203	707 694	(83 169)	624 525
Plant and equipment	135 004	(36 440)	98 564	90 493	(29 843)	60 650
Furniture, fittings and office equipment	412 923	(295 961)	116 962	414 047	(305 560)	108 487
Land and water vehicles	235 091	(130 020)	105 071	238 507	(118 954)	119 553
IT equipment	1 521 546	(966 828)	554 718	1 565 588	(886 017)	679 571
Leasehold improvements	715 629	(577 032)	138 597	677 882	(516 366)	161 516
Generators	75 044	(46 074)	28 970	73 413	(39 478)	33 935
Security equipment	193 653	(160 320)	33 333	178 275	(150 181)	28 094
	<b>4 215 605</b>	<b>(2 319 527)</b>	<b>1 896 078</b>	<b>4 102 233</b>	<b>(2 129 568)</b>	<b>1 972 665</b>



## 5. Property, plant and equipment (continued)

Reconciliation of the carrying amount of property, plant and equipment - Economic entity - 2018

Figures in Rand thousand (R'000)										
	Opening balance	Additions	Compensation for replacement assets	Disposals	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total	
Land	156 334	-	-	-	8 337	-	-	(11)	-	164 660
Buildings	624 525	12 491	-	-	54 100	(13 957)	(21 959)	-	-	655 200
Plant and equipment	60 650	45 333	-	(40)	-	(7 361)	(18)	-	-	98 564
Furniture, fittings and office equipment	108 923	42 752	2	(31)	-	(33 318)	(984)	19	-	117 363
Land and water vehicles	119 553	13 453	-	(1 642)	-	(24 952)	(1 341)	-	-	105 071
IT equipment	682 096	46 808	808	(684)	-	(168 836)	(2 926)	160	-	557 426
Leasehold improvements	161 946	39 082	-	-	-	(61 925)	(209)	-	-	138 894
Generators	33 946	1 661	-	-	-	(6 611)	(15)	-	-	28 981
Security equipment	28 095	19 436	-	(30)	-	(13 928)	(240)	-	-	33 333
	<b>1 976 068</b>	<b>221 016</b>	<b>810</b>	<b>(2 427)</b>	<b>62 437</b>	<b>(330 888)</b>	<b>(27 703)</b>	<b>179</b>	<b>1 899 492</b>	

## 5. Property, plant and equipment (continued)

### Reconciliation of the carrying amount of property, plant and equipment - Economic entity - 2017

Figures in Rand thousand (R'000)										
	Opening balance	Additions	Disposals	Transfers	Revaluations	Compensation for replacement assets	Depreciation	Impairment loss/scrappings	Impairment reversal	Total
Land	194 161	-	-	-	73	-	-	(37 900)	-	156 334
Buildings	645 843	7 651	-	832	37 869	-	(12 110)	(55 560)	-	624 525
Plant and equipment	51 528	15 349	-	-	-	-	(6 227)	-	-	60 650
Furniture, fitting and office equipment	95 853	44 233	(5)	-	-	112	(30 685)	(754)	169	108 923
Land and water vehicles	118 836	26 218	(578)	-	-	-	(24 732)	(191)	-	119 553
IT equipment	226 664	583 574	(85)	607	-	272	(127 361)	(1 696)	121	682 096
Leasehold improvements	138 179	78 255	-	-	-	-	(51 988)	(2 500)	-	161 946
Generators	33 266	6 615	-	-	-	-	(5 935)	-	-	33 946
Security equipment	40 627	6 788	-	-	-	-	(19 351)	(65)	96	28 095
Assets under construction	1 526	(87)	-	(1 439)	-	-	-	-	-	-
	<b>1 546 483</b>	<b>768 596</b>	<b>(668)</b>	<b>-</b>	<b>37 942</b>	<b>384</b>	<b>(278 389)</b>	<b>(98 666)</b>	<b>386</b>	<b>1 976 068</b>

Additions are disclosed net of inter-class transfers, which might result in a negative balance depending on the transfer in or out of the specific class

## 5. Property, plant and equipment (continued)

Reconciliation of the carrying amount of property, plant and equipment - Controlling entity - 2018

Figures in Rand thousand (R'000)

	Opening balance	Additions	Disposals	Revaluations	Compensation for replacement assets	Depreciation	Impairment loss/scrappings	Impairment reversal	Total
Land	156 334	-	-	8 337	-	-	(11)	-	164 660
Buildings	624 525	12 494	-	54 100	-	(13 957)	(21 959)	-	655 203
Plant and equipment	60 650	45 333	(40)	-	-	(7 361)	(18)	-	98 564
Furniture, fittings and office equipment	108 487	42 631	(31)	-	2	(33 162)	(984)	19	116 962
Land and water vehicles	119 553	13 453	(1 642)	-	-	(24 952)	(1 341)	-	105 071
IT equipment	679 571	45 629	(677)	-	808	(167 847)	(2 926)	160	554 718
Leasehold improvements	161 516	39 082	-	-	-	(61 792)	(209)	-	138 597
Generators	33 935	1 661	-	-	-	(6 611)	(15)	-	28 970
Security equipment	28 094	19 436	(30)	-	-	(13 928)	(240)	-	33 332
	<b>1 972 665</b>	<b>219 719</b>	<b>(2 420)</b>	<b>62 437</b>	<b>810</b>	<b>(329 610)</b>	<b>(27 703)</b>	<b>179</b>	<b>1 896 077</b>

## 5. Property, plant and equipment (continued)

### Reconciliation of the carrying amount of property, plant and equipment - Controlling entity - 2017

Figures in Rand thousand (R'000)										
	Opening balance	Additions	Disposals	Transfers	Revaluations	Compensation for replacement assets	Depreciation	Impairment loss/Scrappings	Impairment reversal	Total
Land	194 161	-	-	-	73	-	-	(37 900)	-	156 334
Buildings	645 843	7 651	-	832	37 869	-	(12 110)	(55 560)	-	624 525
Plant and equipment	51 528	15 349	-	-	-	-	(6 227)	-	-	60 650
Furniture, fittings and office equipment	95 406	44 090	(3)	-	-	112	(30 533)	(754)	169	108 487
Land and water vehicles	118 836	26 218	(578)	-	-	-	(24 732)	(191)	-	119 553
IT equipment	223 988	582 575	(2)	607	-	272	(126 294)	(1 696)	121	679 571
Leasehold improvements	137 616	78 255	-	-	-	-	(51 855)	(2 500)	-	161 516
Generators	33 252	6 615	-	-	-	-	(5 932)	-	-	33 935
Security equipment	40 623	6 789	-	-	-	-	(19 349)	(65)	96	28 094
Assets under construction	1 526	(87)	-	(1 439)	-	-	-	-	-	-
	<b>1 542 779</b>	<b>767 455</b>	<b>(583)</b>	<b>-</b>	<b>37 942</b>	<b>384</b>	<b>(277 032)</b>	<b>(98 666)</b>	<b>386</b>	<b>1 972 665</b>

Net transfers between property, plant and equipment and intangible assets as per note 6 contra each other.

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 5. Property, plant and equipment (continued)

### Assets subject to Finance Lease (net carrying amount)

	2018	2017	2018	2017
Furniture, fittings and office equipment	25 339	12 332	25 284	12 240

### Revaluations

The effective date of the revaluations was 31 March 2018. Revaluations were performed by independent professional valuer, Mr WJ Hewitt [NDPV, MIEA, FIVSA, MRICS] and candidate valuer Mr PL Niesing [MSc Real Estate, B Art et Scientiae (Planning) SAIV] of Mills Fitchet Valuations (Pty) Ltd. Mills Fitchet (Pty) Ltd is not connected to the economic entity.

The valuation of Lehae la SARS (299 Bronkhorst Street, Nieuw Muckleneuk, 0180) was performed using the direct comparable method. This method determines the market value of vacant land or residential properties as this method employs the direct comparison of comparable properties recently sold.

The valuation of the Alberton South Campus (New Redruth Extension 6, McKinnon Crescent, Alberton, 1449) was performed using the net annual income method. This method determines the market value of income producing properties such as shopping centres, offices and industrial or commercial properties where the buildings have earning potential.

The valuation of the Fouriesburg and Ficksburg houses were performed using the direct comparable method to determine the market value.

### Expenditure incurred to repair and maintain Property, Plant and Equipment and Intangible Assets

#### Included in Statement of Financial Performance

	2018	2017	2018	2017
General expenses	83 492	71 557	83 146	71 507
Contracted services	463 694	449 200	463 544	468 025
	<b>547 186</b>	<b>520 757</b>	<b>546 690</b>	<b>539 532</b>

## 6. Intangible assets

Figures in rand thousand (R'000)						
Economic entity	2018			2017		
	Cost / Valuation	Movement	Carrying value	Cost / Valuation	Movement	Carrying value
Intellectual property and other rights	73 583	(34 002)	39 581	73 583	(26 644)	46 939
IT software	3 163 925	(2 436 922)	727 003	2 948 021	(2 176 774)	771 247
Software under development	11 374	-	11 374	81 899	-	81 899
<b>Total</b>	<b>3 248 882</b>	<b>(2 470 924)</b>	<b>777 958</b>	<b>3 103 503</b>	<b>(2 203 418)</b>	<b>900 085</b>

Figures in rand thousand (R'000)						
Controlling entity	2018			2017		
	Cost / Valuation	Movement	Carrying value	Cost / Valuation	Movement	Carrying value
IT software	3 469 462	(2 433 867)	1 035 595	3 245 418	(2 174 507)	1 070 911
Software under development	212 830	-	212 830	186 061	-	186 061
<b>Total</b>	<b>3 682 292</b>	<b>(2 433 867)</b>	<b>1 248 425</b>	<b>3 431 479</b>	<b>(2 174 507)</b>	<b>1 256 972</b>

## 6. Intangible assets (continued)

### Reconciliation of the carrying amount of intangible assets - Economic entity - 2018

Figures in rand thousand (R'000)							
	Opening balance	Additions	Transfers	Amortisation	Impairment loss/scrappings	Total	
Intellectual property and other rights	46 939	-	-	(7 358)	-	39 581	
IT software	771 247	147 744	68 160	(260 148)	-	727 003	
Software under development	81 899	66 274	(68 160)	-	(68 639)	11 374	
	<b>900 085</b>	<b>214 018</b>	<b>-</b>	<b>(267 506)</b>	<b>(68 639)</b>	<b>777 958</b>	

### Reconciliation of the carrying amount of intangible assets - Economic entity - 2017

Figures in rand thousand (R'000)							
	Opening balance	Additions	Transfers	Amortisation	Impairment loss/scrappings	Total	
Intellectual property and other rights	54 297	-	-	(7 358)	-	46 939	
IT software	617 231	271 163	141 332	(248 055)	(10 424)	771 247	
Software under development	99 489	123 742	(141 332)	-	-	81 899	
	<b>771 017</b>	<b>394 905</b>	<b>-</b>	<b>(255 413)</b>	<b>(10 424)</b>	<b>900 085</b>	

### Reconciliation of the carrying amount of intangible assets - Controlling entity 2018

Figures in rand thousand (R'000)							
	Opening balance	Additions	Transfers	Amortisation	Impairment loss/scrappings	Total	
IT software	1 070 911	149 256	74 788	(259 360)	-	1 035 595	
Software under development	186 061	170 196	(74 788)	-	(68 639)	212 830	
	<b>1 256 972</b>	<b>319 452</b>	<b>-</b>	<b>(259 360)</b>	<b>(68 639)</b>	<b>1 248 425</b>	

### Reconciliation of the carrying amount of intangible assets - Controlling entity - 2017

Figures in rand thousand (R'000)							
	Opening balance	Additions	Transfers	Amortisation	Impairment loss/scrappings	Total	
IT software	817 162	303 128	208 391	(247 346)	(10 424)	1 070 911	
Software under development	226 409	168 043	(208 391)	-	-	168 061	
	<b>1 043 571</b>	<b>471 171</b>	<b>-</b>	<b>(247 346)</b>	<b>(10 424)</b>	<b>1 256 972</b>	

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 6. Intangible assets (continued)

### Intangible assets in the process of being constructed or developed that is taking a significantly longer period of time to complete than expected

eDNA	9 437	9 437	9 437	9 437
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The project comprised of multiple components that were envisaged to be delivered in phase one, but due to architectural changes the scope was not completed. The scope outstanding was for the software that would enable the reading of the ID Smart Card and the rollout to Mobile Tax Units (MTU). These deliverables were moved to phase two.

Phase two, which is currently ongoing, is envisaged to complete the MTU roll-out and the additional readers, along with the phase two software enhancements by December 2018.

QRadar	1 182	1 182	1 182	1 182
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The scope of the QRadar project is to expand the QRadar environment at Brooklyn in both the Quality Assurance (QA) and production environment as well as at the hosting environment.

As a result of delays with the implementation of the Security Identify Management/Security Access Management (SIM/SAM) application which resulted in the implementation only taking place in December 2017, the contract with the service provider expired and could not be extended. A change request is currently in the process of being approved after which the QRadar implementation will continue.

Tax Compliance Status	2 089	-	2 089	-
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The Tax Compliance Status deliverables were broken down into manageable phases to mitigate the risks of destabilising the production environment by taking such a large change into the environment. The final release is currently planned for October 2018. The reason for the final phase delay is due to project delivery priority changes.

Filing Season 2017 with HTML5	570	-	570	-
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The scheduled implementation was postponed due to the prioritisation of other initiatives. A change request was approved and implementation is planned for May 2018.

Dispute Management	440	-	440	-
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The scheduled implementation was postponed due to the prioritisation of other initiatives. A change request was approved and implementation is planned for June 2018.

	<b>13 718</b>	<b>10 619</b>	<b>13 718</b>	<b>10 619</b>
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	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 6. Intangible assets (continued)

**Carrying value of Intangible assets where construction or development has been halted either during the current or previous reporting period(s).**

Integrated Account and Revenue Management (IARM)	27 043	93 481	27 043	93 481
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The project was suspended for an extended timeframe due to the moratorium placed on modernisation activities in December 2014, subsequent changes in business priorities and the need for external reviews to be concluded. It is prudent to safeguard these assets in anticipation of future re-use opportunities when the project phases dedicated to the delivery of these tax products continue in 2018/19.

The previous primary service provider has been re-engaged to complete the IARM implementation due to the intellectual property and insight the vendor has of SARS's business and related processes, IARM developments, as well as the associated implementation and support risk. The service provider has been requested to adopt an implementation approach that will ensure the highest possible re-use, particularly with regard to the areas of risk, audit, debt, disputes and data migration.

A final re-use assessment will be undertaken after the VAT and PAYE blueprinting phases.

Debt Management	995	-	995	-
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The scope of the project was to enhance payment arrangements, write-offs and various types of settlements of the current Debt Management System in order to ensure that the overall solution is robust, easily managed and accounting compliant. This implementation included facilitating compliance to GRAP 108 by introducing the concept of impairment provision and bad debt recovery, which would ensure that the general ledger debtor balance was correctly stated from the outset.

The design phase of this project was completed, but then the project was deprioritised. A priority and re-use assessment will be done in 2018/19.

eFiling Gateway Payment Reform	495	-	495	-
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The eFiling Payment Gateway is a standalone module on the eFiling system that interacts with all banks for a "Credit Push" payments. The eFiling core application is the only channel that uses this Payment Gateway to facilitate payments. The objective of this project was to make the necessary change to the Payment Gateway so that it could accept payments from any other channel and subsystem inside SARS, making it a Genetic Payment Service.

The design phase of the project was completed, but then the project was deprioritised.

A priority and re-use assessment will be done in 2018/19.

	28 493	93 481	28 493	93 481
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## 7. Investment in controlled entity

Name of company	Held by	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
International Frontier Technologies SOC Ltd	South African Revenue Service	100%	100%	-	-

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



	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 8. Loan to the controlled entity

Interfront	-	-	52 595	92 595
Provision for impairment of loan to controlled entity	-	-	(10 378)	(12 053)
	-	-	<b>42 217</b>	<b>80 542</b>

A decision was made to incorporate Interfront into SARS. This decision is however subject to approval by the Minister of Finance as the Executive Authority as required by section 54(2)(d) of the PFMA.

The loan has no agreed upon repayment terms, does not bear interest and is therefore not at market comparable terms and needs to be tested for impairments. In order to test for impairment the fair value must be determined as described below.

The loan is recognised at amortised cost which is calculated by assessing the level of impairment necessary weighing the different probabilities of repayment (80%) or conversion into equity (20%) appropriately. A weighted average effective interest rate as at 29 March 2018 was calculated as 9.81% resulting in the implied interest income to be recognised in the Statement of Financial Performance.

The loan is recognised at amortised cost, and therefore any gain from the excess of the fair value over the carrying amount cannot be recognised (fair value is limited to the original carrying amount). However, an increase in the fair value may be recognised through the reversal of a previously recognised impairment charge, up to the total amount advanced still outstanding.

As per GRAP 104, SARS is required to disclose the fair value of the loan, as well as the amortised cost at which it is recognised.

The controlled entity made a loan repayment of R40 million during the current financial year under review.

### Fair value of the loan to the controlled entity

Loan to controlled entity	-	-	43 652	122 968
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In order to determine the expected future cash free cash flows of the controlled entity, the valuers obtained management's forecasts for the five-year period from 1 April 2018 to 31 March 2023. Midpoint discounting was used to determine the fair value through discounting the estimated repayments, following the industry standard assumption that cash flows are earned evenly throughout each period.

### Impairment of the loan to the controlled entity

As at 31 March 2018, the loan to Interfront of R52 595 410 (2017: R92 595 410) was impaired by R10 377 979 (2017: R12 052 739.)

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

Over 6 months	-	-	52 595	92 595
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	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 8. Loan to the controlled entity (continued)

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

Opening balance	-	-	12 052	12 143
Provision for impairment (refer note 17)	-	-	9 051	7 807
Deemed interest income	-	-	(10 725)	(7 898)
	-	-	10 378	12 052

The net movement in the provision for impairment of the loan to the controlled entity has been included in operating expenses in the statement of financial performance (note 17).

## 9. Tax (receivable) - controlled entity

Balance at beginning of the year	469	2 222	-	-
Current tax recognised in surplus	(11 440)	(5 693)	-	-
<b>Balance at end of the reporting period</b>	<b>(825)</b>	<b>(469)</b>	-	-
<b>Tax paid</b>	<b>(11 796)</b>	<b>(3 940)</b>	-	-

## 10. Finance lease obligation

Office equipment				
Minimum lease payments due				
- within one year	17 067	9 673	17 023	9 629
- in second to fifth year inclusive	17 821	10 847	17 799	10 782
	<b>34 888</b>	<b>20 520</b>	<b>34 822</b>	<b>20 411</b>
less: future finance charges	(8 487)	(6 667)	(8 481)	(6 652)
<b>Present value of minimum lease payments</b>	<b>26 401</b>	<b>13 853</b>	<b>26 341</b>	<b>13 759</b>

Non-current liabilities	13 774	7 354	13 753	7 294
Current liabilities	12 627	6 499	12 588	6 465
	<b>26 401</b>	<b>13 853</b>	<b>26 341</b>	<b>13 759</b>

### Office equipment

Photocopiers under lease were capitalised and the corresponding finance lease liability raised in accordance with GRAP 13. The leases are payable in monthly instalments over 36-60 months.

## 11. Trade and other payables

Trade accounts payable and accruals	401 436	302 378	412 519	308 581
Accruals for salary related expenses	264 090	255 606	261 305	252 773
Other payables	815	621	818	621
Donations for distribution	77	77	77	77
	<b>666 418</b>	<b>558 682</b>	<b>674 719</b>	<b>562 052</b>

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 12. Deferred income

Receipts comprises of:

Tenant installation allowances	118	153	118	153
Tower rentals	69	70	69	70
Surrender of surplus balance	977 243	977 243	977 243	977 243
	<b>977 430</b>	<b>977 466</b>	<b>977 430</b>	<b>977 466</b>
Current liabilities	977 430	860 435	977 430	860 435
Non-current liabilities	-	117 031	-	117 031
	<b>977 430</b>	<b>977 466</b>	<b>977 430</b>	<b>977 466</b>

Tenant installation allowances represent amounts received from landlords for improvements made by the tenant to leased properties.

Tower rentals are charged annually in advance for the installation and operation of electronic communication equipment.

On 31 May 2016, SARS submitted a request for retention of the cash balance as at 31 March 2016 in line with section 53(3) of the (PFMA) which states that a public entity may not retain cash surpluses that were realised in the previous financial year without prior written approval from National Treasury.

On 28 July 2016 SARS obtained approval to retain R1.75 billion of the R3.37 billion cash balance as at 31 March 2016 to be utilised for current obligations as disclosed in the Annual Financial Statements. National Treasury however requested that SARS do not return the funding of R1.62 billion that was not approved for retention and instead reduce the March 2017 monthly grant with R645 million and ring-fenced the balance to be used over the medium term (2017/18: R860 million and 2018/19: R117 million).

In the 2018 ENE final allocation, SARS received significant grant reductions over the MTEF period and made the decision to allocate the full R977 million to the 2018/19 financial year. This was done to supplement the reduced grant in 2018/19 to ensure operational continuity as far as possible.

## 13. Provisions

### Reconciliation of provisions - Economic entity - 2018

Figures in Rand thousand (R '000)					
	Opening Balance	Accumulation	Utilised during the year	Adjustments during the year	Closing balance
Performance bonuses	548 506	446 721	(546 974)	(1 532)	446 721
Provision for building rentals	3 179	4 073	(1 008)	(1 588)	4 656
Salary related provisions	2 471	-	(46)	-	2 425
Provision for insurance	-	1 288	-	-	1 288
	<b>554 156</b>	<b>452 082</b>	<b>(548 028)</b>	<b>(3 120)</b>	<b>455 090</b>

### 13. Provisions (continued)

#### Reconciliation of provisions - Economic entity – 2017

Figures in Rand thousand (R '000)					
	Opening Balance	Accumulation	Utilised during the year	Adjustments during the year	Closing balance
Provision for building rentals	-	3 179	-	-	3 179
Salary related provisions	10 421	-	(1 366)	(6 584)	2 471
Performance bonuses	566 515	548 506	(561 068)	(5 447)	548 506
	<b>576 936</b>	<b>551 685</b>	<b>(562 434)</b>	<b>(12 031)</b>	<b>554 156</b>

#### Reconciliation of provisions - Controlling entity – 2018

Figures in Rand thousand (R '000)					
	Opening Balance	Accumulation	Utilised during the year	Adjustments during the year	Closing balance
Performance bonuses	543 085	440 969	(541 273)	(1 812)	440 969
Salary related provisions	2 471	-	(46)	-	2 425
Provision for building rentals	3 179	4 073	(1 008)	(1 588)	4 656
Provision for insurance	-	1 288	-	-	1 288
	<b>548 735</b>	<b>446 330</b>	<b>(542 327)</b>	<b>(3 400)</b>	<b>449 338</b>

#### Reconciliation of provisions - Controlling entity – 2017

Figures in Rand thousand (R '000)					
	Opening Balance	Accumulation	Utilised during the year	Adjustments during the year	Closing balance
Performance bonuses	561 420	543 085	(556 326)	(5 094)	543 085
Salary related provisions	10 421	-	(1 366)	(6 584)	2 471
Provision for building rentals	-	3 179	-	-	3 179
	<b>571 841</b>	<b>546 264</b>	<b>(557 692)</b>	<b>(11 678)</b>	<b>548 735</b>

#### Performance bonuses

Performance bonuses represent the provision for annual performance bonuses payable to employees in terms of performance agreements. The final quantum of the performance bonus payable is uncertain.

#### Salary related provisions

In 2015 a salary provision (R1.8 million) and in 2016 interest on salary and leave provision (R4.7 million) arose from claims by employees in SARS's service to repay salary recoveries made after 1994. These employees formed part of employees from the former Public Service Department in TBVC States that were awarded irregular salary increases and job titles. SARS started with the recovery of these salary overpayments in 1999, but was not part of the Public Service Administration at that time. Payments to the amount of R47 000 were made in 2018 (2017: R1 366 million) and are still ongoing.

#### Provision for building rentals

A provision for building rental escalations was raised on contracts that could not be included in the straight line calculations for operating leases for the financial year 2017/18 pending conclusion of new lease agreements. The calculations were based on the escalation rates as per the latest concluded contracts. Values included in Operating lease expenses as disclosed in Note 30.

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

### 13. Provisions (continued)

#### Provision for insurance

A provision for fleet related repairs and maintenance was raised on incidents that were reported by SARS employees for SARS fleet assets that were involved in accidents or other related incidents for which SARS has not yet received a quote or invoice for the repairs. The calculations were based on the estimated cost per incident as provided by the SARS Insurance service provider. The final cost of the repairs is uncertain.

### 14. Asset revaluation reserve

Opening balance	262 186	224 244	262 186	224 244
Current year revaluation	72 088	43 960	72 088	43 960
Depreciation on the revalued portion of assets	(9 650)	(6 018)	(9 650)	(6 018)
	<b>324 624</b>	<b>262 186</b>	<b>324 624</b>	<b>262 186</b>

### 15. Revenue

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	<b>11 293</b>	<b>9 928</b>	-	-
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The amount included in revenue arising from non-exchange transactions is as follows:

Transfer from National Treasury	<b>10 218 198</b>	<b>10 009 152</b>	<b>10 218 198</b>	<b>10 009 152</b>
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### 16. Other income

Discount on non-exchange transaction	1 355	578 109	1 355	578 109
Commission received	322 430	315 821	322 430	315 821
Sundry receipts	20 559	25 880	20 977	26 166
SDL training grant	691	4 654	691	4 654
Compensation for replacement assets	810	385	810	385
	<b>345 845</b>	<b>924 849</b>	<b>346 263</b>	<b>925 135</b>

### 17. Impairment loss

Property, plant and equipment and Intangible assets	96 161	108 705	96 161	108 705
Loan to controlled entity (Refer note 8)	-	-	9 051	7 807
	<b>96 161</b>	<b>108 705</b>	<b>105 212</b>	<b>116 512</b>

According to GRAP 17 and GRAP 21, the economic entity reviews and tests the carrying value of property, plant and equipment when events or changes in circumstances suggest that the carrying amount may not be recoverable. In the economic entity's asset policy an event is defined as the inability to verify an asset for a period of two years upon which the carrying value is impaired to zero. If the asset remains unverified, it will be written-off at the subsequent reporting date. In 2018 assets to the value of R68.6 million (2017: R10.4 million) was impaired in line with GRAP 21 and R 368 000 (2017: R4.9 million) in line with the SARS policy. The impairment of R10.4 million in 2017 in line with GRAP 21 will remain impaired until a decision is made in 2018/19 in terms of the future usability of these assets.

Impairment of land and buildings represent adjustments in terms of valuations performed (refer to note 5). Impairments of R 21.970 million (2017: R93.4 million) were processed for 2018.

The loan to Interfront was measured at amortised cost. This resulted in impairment in the current financial year.

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 18. Finance costs

Finance leases	4 012	3 250	4 003	3 234
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## 19. Taxation - controlled entity

### Major components of the tax expense

#### Current

Local income tax - current period	11 455	5 662	-	-
Local income tax - recognised in current tax for prior periods	(15)	30	-	-
	<b>11 440</b>	<b>5 692</b>	-	-

#### Deferred

Deferred tax movement current year	(1 537)	(707)	-	-
	<b>9 903</b>	<b>4 985</b>	-	-

### Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

<b>Applicable tax rate</b>	28 %	28 %	-%	-%
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Accounting Profit subject to tax	33 074	15 353	-	-
Tax at 28%	9 261	4 299	-	-
Deferred tax effect income	1 537	707	-	-
Non-deductible expenses	656	656	-	-
Under/(over) provision of tax in the prior year	(14)	30	-	-
	<b>11 440</b>	<b>5 692</b>		

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

	Note(s)	Economic entity		Controlling Entity	
		2018	2017	2018	2017
		R '000	R '000	R '000	R '000

## 20. Cash generated from operations

(Deficit)/surplus	(113 076)	433 260	(28 061)	498 549
Adjustments for:				
Depreciation and amortisation	598 394	533 802	588 970	524 378
Loss (Gain) on disposal of assets	102	(2 091)	95	(2 159)
Compensation for replacement assets	(810)	(384)	(810)	(384)
Surplus received in advance	-	(645 476)	-	(645 476)
Finance costs	4 012	3 241	4 003	3 234
Impairment loss	96 161	108 705	105 212	116 512
Movement in operating lease liability	(39 057)	(16 434)	(39 057)	(16 555)
Movement in employee benefits	46 733	29 859	46 733	29 859
Movement in provisions	(99 066)	(22 780)	(99 397)	(23 106)
Movement in tax receivable	(356)	1 753	-	-
Annual charge for deferred tax	(1 537)	(707)	-	-
Interest income intercompany loan	-	-	(10 725)	(7 898)
Changes in working capital:				
Inventory	(38 330)	-	(38 330)	-
Receivables from exchange transactions at amortised cost	(22 720)	10 739	(24 075)	13 187
Prepayments	(106 595)	6 211	(106 560)	5 524
Trade and other payables	107 739	(162 236)	112 668	(173 064)
VAT	541	(1 560)	-	-
Deferred income	(36)	(78)	(36)	(78)
	<b>432 099</b>	<b>275 824</b>	<b>510 630</b>	<b>322 523</b>

## 21. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Receivables from exchange transactions (amortisation cost)	84 349	61 629	83 144	59 069
Cash and cash equivalents at fair value	2 543 600	2 535 674	2 476 607	2 454 244
Loan to controlled entity at amortised cost	-	-	42 217	80 542
	<b>2 627 949</b>	<b>2 597 303</b>	<b>2 601 968</b>	<b>2 593 855</b>

## 22. Deferred tax

Deferred tax liability	(6 947)	(8 485)	-	-
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Reconciliation of deferred tax liability:

At beginning of year	(8 485)	(9 191)	-	-
Originating temporary difference on intellectual property	1 441	1	-	-
		441		
Reversing temporary difference on property, plant and equipment	(105)	(177)	-	-
Reversing temporary difference on finance lease	(10)	(13)	-	-
Originating temporary difference on operating lease	1	34	-	-
Temporary difference on prepayments	162	112	-	-
Movement in provision and accruals	49	(691)	-	-
	<b>(6 947)</b>	<b>(8 485)</b>	<b>-</b>	<b>-</b>

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 23. Employee benefit obligations

### Defined contribution retirement fund

Entitlement to retirement benefits is governed by the rules of the pension fund. The economic entity has no legal or constructive obligation to pay for future benefits, this responsibility vests with the pension fund.

The total contribution to such schemes	508 155	472 894	503 447	468 830
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## 24. Prepayments

Prepaid expenses	149 756	51 160	149 023	50 462
Leave taken in advance	28 190	20 192	28 190	20 192
	<b>177 946</b>	<b>71 352</b>	<b>177 213</b>	<b>70 654</b>

## 25. Inventory

Corporate and Customs uniforms	23 562	-	23 562	-
Combat uniforms	14 768	-	14 768	-
	<b>38 330</b>	<b>-</b>	<b>38 330</b>	<b>-</b>

## 26. Employee benefits - leave accumulated prior to 1999

Leave pay represents the entitlements of amounts due to personnel for leave accumulated prior to 1999.

Opening balance	10 389	10 008	10 389	10 008
Benefits paid	(1 719)	(974)	(1 719)	(974)
Actuarial loss	(144)	512	(144)	512
Interest cost	794	843	794	843
	<b>9 320</b>	<b>10 389</b>	<b>9 320</b>	<b>10 389</b>

Employees with leave accumulated prior to 1999 did not have an opportunity in 2018 to encash any leave (2017: R nil).

The valuation has been performed on a member by member basis using the projected unit credit method as specified by the Statement on Employee Benefits (GRAP 25). This valuation method determines the obligation that has accrued at the date of valuation, allowing for salary escalations, the probability of benefits being paid and the time value for money.

The valuation resulted in a decrease of actuarial value due to the provision accounted for at discounted value but the payment for the additional leave encashment was at full face value net of salary benefit withdrawals and salary increases. The salary inflation rate is set at a rate of 1% below the discount rate (Zero Coupon Bond Rate). Interest cost is the increase during the period in the present value of the leave obligation which arises because the leave benefits are one period closer to settlement.



	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

## 27. Employee benefits - accumulated leave

Accumulated annual leave is the portion of 5 working days per annum that may be accumulated up to a maximum of 20 working days.

Opening balance	200 652	171 169	200 652	171 169
Benefits paid	(14 826)	(61 522)	(14 826)	(61 522)
Actuarial loss	45 744	75 983	45 744	75 983
Interest cost	16 882	15 021	16 882	15 021
	<b>248 452</b>	<b>200 651</b>	<b>248 452</b>	<b>200 651</b>

No additional encashment of leave was approved in 2018 (2017: R48 749 207). In 2017, employees with accumulated annual leave had the option to encash between one and ten days provided that they keep a compulsory minimum of ten working days as a balance.

The valuation has been performed on a member by member basis using the projected unit credit method as specified by the Statement on Employee Benefits (GRAP 25). This valuation method determines the obligation that has accrued at the date of valuation, allowing for salary escalations, the probability of benefits being paid and the time value for money.

The salary inflation rate is set at a rate of 1% below the discount rate (Zero Coupon Bond Rate). Interest cost is the increase during the period in the present value of the leave obligation which arises because the leave benefits are one period closer to settlement.

## 28. Financial liabilities by category

Finance lease obligation at amortised cost	26 401	13 853	26 341	13 759
Trade and other payables at amortised cost	402 251	302 999	413 337	309 202
Employee benefits at fair value(refer notes 26 & 27)	257 773	211 040	257 773	211 040
	<b>686 425</b>	<b>527 892</b>	<b>697 451</b>	<b>534 001</b>

## 29. Auditors' remuneration

Audit fees	27 698	27 213	27 053	26 585
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## 30. Operating leases

<b>Building and related rentals on straight-line basis</b>	<b>514 339</b>	<b>519 302</b>	<b>512 184</b>	<b>517 349</b>
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Contractual building and related rentals	553 396	535 735	551 240	533 903
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Clauses pertaining to renewal or purchasing options are evaluated on a case by case basis. The escalation rates vary between 0% and 9% per annum.

	Economic entity		Controlling Entity	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000

### 30. Operating leases (continued)

#### Minimum future lease payments

Economic entity 2018	Less than 1 year	Between 2 and 5 years	Beyond 5 years	Total
Building and related rentals	401 925	466 606	13 956	882 487

Economic entity 2017	Less than 1 year	Between 2 and 5 years	Beyond 5 years	Total
Building and related rentals	479 847	783 586	48 025	1 311 458

Controlling entity 2018	Less than 1 year	Between 2 and 5 years	Beyond 5 years	Total
Building and related rentals	399 528	464 477	13 956	877 961

Controlling entity 2017	Less than 1 year	Between 2 and 5 years	Beyond 5 years	Total
Building and related rentals	477 628	781 189	45 896	1 304 713

### 31. Commitments

#### Authorised capital expenditure

##### Already contracted for

Intangible assets	205 995	114 176	205 995	114 176
Property, plant and equipment	187 798	124 505	187 798	124 505
	<b>393 793</b>	<b>238 681</b>	<b>393 793</b>	<b>238 681</b>

##### Authorised but not yet contracted for

Intangible assets	1 776 228	881 643	1 776 228	881 643
Property, plant and equipment	295 518	352 528	295 518	352 528
	<b>2 071 746</b>	<b>1 234 171</b>	<b>2 071 746</b>	<b>1 234 171</b>

#### Total capital commitments

Already contracted for	393 793	238 681	393 793	238 681
Authorised but not yet contracted for	2 071 746	1 234 171	2 071 746	1 234 171
	<b>2 465 539</b>	<b>1 472 852</b>	<b>2 465 539</b>	<b>1 472 852</b>

#### Authorised operational expenditure

Already contracted for	102 567	142 149	102 338	140 488
Authorised but not yet contracted for	845 450	349 714	845 450	349 714
	<b>948 017</b>	<b>491 863</b>	<b>947 788</b>	<b>490 202</b>

#### Total commitments

Authorised capital expenditure	2 465 539	1 472 852	2 465 539	1 472 852
Authorised operational expenditure	948 017	491 863	947 788	490 202
	<b>3 413 556</b>	<b>1 964 715</b>	<b>3 413 327</b>	<b>1 963 054</b>

Some of the projects disclosed as authorised but not yet approved for, relate to multiyear projects such as the Generally Recognised Accounting Practice (GRAP) Project as well as the New Customs Act Project (NCAP).

## 32. Contingencies

Contingencies exclude any matters arising as a result of tax and customs related activities

### Contingent Liabilities

#### Legal proceedings

An employee who was prosecuted by SARS in the trial pertaining to the 2010 fraud case where the employee allegedly colluded with outside suppliers to the value of R11.5 million began in October 2015 and the employee was found not guilty in August 2017. SARS has received a notice of intended legal proceedings from the employee's legal representatives, in terms of Section 3 of Act 40 (Tax Administration Act) of 2002. It is the employee's intention to institute civil proceedings against SARS for damages allegedly suffered against the employee. The sum demanded from the employee is R58 008 425.

On a second matter SARS received a letter of demand from an employee of SARS in respect of a damages claim. A meeting was held with the employee on 29 January 2018, during which the employee indicated that she would be amenable to patrimonial damages of R32 817 in respect of her legal costs. She appointed an attorney to assist and advise her with regard to her grievance against SARS. She is also claiming medical expenses of R33 275 not paid for by her medical aid which she incurred as a result of the stress she endured, which according to her had a negative effect on her health. The employee is further also seeking personal damages of 2–3 months' salary in respect of reputational damages; and one month's paid annual leave in addition to her normal allocated leave. This matter is still under legal advisement.

#### Trade Vendors

SARS issued a tender for the supply, installation and maintenance of goods. The successful bidder failed to deliver in accordance with the tender specifications. The vendor is disputing SARS's submission and is of the opinion that it delivered in accordance with the specifications. The arbitration is set to start in July 2018 with the amount outstanding as per the contract set at R5 917 200.

## 33. Related parties

Related parties	
Interfront	Refer to note 7
Key members of the controlled entity's management who are employed by the controlling entity	Ms. LJM Makhekhe-Mokhuane Ms. R Mokoena Mr. J.M. Makwakwa - Non - Executive Director (resigned 14 March 2018) Mr. M.P. Matlwa - Non - Executive Director (resigned 26 August 2017) Mr. H.T. Mashigo - Non - Executive Director (resigned 4 July 2017)
Close family member of the executive committee member of the controlling entity <b>Executive committee member</b> CO: Customs and Excise CO: Customs and Excise CO: Enforcement CO: Governance, International Relations, Strategy and Communications Acting CO: Human Capital and Development Former CO: Business and Individual Taxes	<b>Close family member</b> Mr. M Mokoena Ms. DG Mokoena Mr. AJ Magongoa Ms. JMB Dankuru Ms. ML Lebelo Ms. K Elskie

SARS is a Schedule 3A Public Entity in terms of the PFMA. Related parties include other state owned entities, government departments and all other entities within the spheres of Government.

The Government provided SARS with a grant for its operating expenditure and to fund specific projects.

Only transactions with related parties where the transactions are not concluded within the normal operating policies and procedures or on terms that are not more or less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

	Controlling Entity	
	2018	2017
	R '000	R '000

### 33. Related parties (continued)

#### Related party balances - controlling entity

Loan accounts - owing by related parties		
Interfront	42 217	80 543
Amounts included in trade receivables regarding related parties		
Department of Home Affairs (DHA)	9 587	6 194
Amounts included in trade and other payables		
Interfront	13 456	9 170

#### Related party transactions - controlling entity

Rendering of services to related parties		
Department of Home Affairs (DHA)	55 176	41 785
Rendering of services by related parties		
Interfront	125 548	96 164

The controlling entity continues to assist the Department of Home Affairs (DHA) in maintaining its electronic movement control system as well as assisting DHA in the implementation and maintenance of its new smart ID card and live passport capture platform ("Who Am I Online" project).

#### Compensation to close family members of executive committee of the controlling entity

Figures in Rand thousand (R'000)		
Mr. M Mokoena	401	396
Ms. DG Mokoena (1 month)	21	268
Mr. AJ Magongoa	761	996
Ms. JMB Dankuru (9 months)	320	202
Ms. ML Lebelo (2 months)	62	395
Ms. K Elskie (4.5 months)	116	323
	1681	2580

### 34. Executive remuneration

2018						
Figures in Rand thousand (R'000)						
	Salaries	Bonus paid	Allowances including leave payments	Contributions medical and pension	Acting allowance paid	Total
Commissioner for SARS	3 718	-	154	449	-	4 321
CO: Business and Individual Taxes (4.5 months)	1 331	-	562	131	-	2 024
CO: Business and Individual Taxes (Acting) (5.5 months)	1 291	566	25	111	152	2 145
CO: Business and Individual Taxes (Acting) (1.5 months)	314	-	4	3	31	352
CO: Finance (4 months)	1 055	998	315	105	-	2 473
CO: Finance (Acting) (8 months)	1 316	-	39	141	152	1 648
CO: Human Capital and Development (10 months)	2 537	946	33	282	-	3 798
CO: Human Capital and Development (Acting) (2 months)	295	-	61	37	39	432
CO: Customs and Excise (10 months)	3 010	845	33	291	-	4 179
CO: Customs and Excise (2 months)	477	-	20	58	-	555
CO: Governance, International Relations, Strategy and Communications and CO: Enforcement (Acting) (3 months)	3 561	997	40	429	96	5 123
CO: Enforcement (9 months)	2 158	-	45	242	-	2 445
CO: Digital Information and Services Technologies (11 months)	2 710	-	71	286	-	3 067
CO: Digital Information and Services Technologies (Acting) (1 month)	182	-	2	2	-	186
CO: Legal Counsel (11 months)	2 671	-	135	326	-	3 132
CO: Legal Counsel (Acting)(1 month)	173	-	3	17	19	212
	26 799	4 352	1 542	2 910	489	36 092

The Commissioner for SARS Mr. TS Moyane was suspended on 19 March 2018 for his alleged misconduct in violation of his duties and responsibilities in terms of the (PFMA), South African Revenue Service Act and the SARS Code of Conduct. Mr. MS Kingon was appointed as Acting Commissioner of SARS on 19 March 2018. At the time of Mr. MS Kingon's appointment he was the Acting Chief Officer: Business and Individual Taxes for the period from 14 March 2018 to 19 March 2018.

Chief Officer: BAIT Mr. MJ Makwakwa was suspended on the 15th September 2016, on allegations of suspicious and unusual cash deposits and payments made by Mr. Makwakwa in his personal bank account as reported in a Financial Intelligence Centre report to SARS. Mr. Makwakwa returned to work on 1 November 2017 post conclusion of an internal disciplinary process. Mr. MJ Makwakwa resigned from SARS on 14 March 2018. Mr. FG Murray was appointed as Acting Chief Officer: BAIT on 20 March 2018.

Both Mr. MS Kingon's and Mr. FG Murray's acting appointments have not been included in the table above as executive remuneration as the acting was for periods shorter than 15 days.

The Chief Officer: Finance Mr. MP Matlwa, resigned from his position on 25 August 2017, working from home from 2 August 2017 which was also his last day as an Executive Committee member.

The Chief Officer: Customs and Excise Mr. JP Michaletos, resigned from his position on 7 February 2018, his last day as an Executive Committee member was 31 January 2018.

Refer to Note 38 on payment of performance bonuses for the SARS Executive Committee.

### 34. Executive remuneration (continued)

2017						
Figures in Rand thousand (R'000)						
	Salaries	Bonus paid/ payable	Allowances including leave payments	Contributions medical and pension payments	Acting allowance paid/ payable	Total
Commissioner for SARS	3 665	-	52	443	-	4 160
CO: Business and Individual Taxes and CO: Digital Information and Services Technology (Acting) (5.5 months)	3 336	930	196	322	165	4 949
CO: Business and Individual Taxes (Acting) (6.5 months)	1 371	-	47	15	136	1 569
CO: Digital Information and Services Technologies (Acting) (3.5 months)	904	-	9	11	89	1 013
CO: Digital Information and Services Technologies (Acting) (3 months)	429	-	28	47	55	559
CO: Finance	3 036	795	55	295	-	4 181
CO: Governance, International Relations, Strategy and Communications and CO: Enforcement (Acting) (12 months)	3 338	185	126	404	376	4 429
CO: Customs and Excise	3 419	185	96	330	-	4 030
CO: Legal Counsel (10 months)	2 502	720	231	26	-	3 479
CO: Legal Counsel (Acting) (2 months)	386	-	6	38	43	473
CO: Human Capital and Development	2 782	185	111	317	-	3 395
	<b>25 168</b>	<b>3 000</b>	<b>957</b>	<b>2 248</b>	<b>864</b>	<b>32 237</b>

Refer to Note 38 on payment of performance bonuses for the SARS Executive Committee.

### 35. Prior period adjustments

The corrections of errors pertaining to 2017 resulted in adjustments as follows:

Figures in Rand thousand (R'000)				
Statement of Financial Position	Economic entity		Controlling Entity	
	2017	2016	2017	2016
Deferred tax liability	823	(3 909)	-	-
Accumulated surplus	(823)	-	-	-
Opening retained earnings	-	3 909	-	-

Figures in Rand thousand (R'000)				
Statement of Financial Performance	Economic entity		Controlling Entity	
	2017	2016	2017	2016
Professional and special services	(81)	-	-	-
Operating leases	81	-	-	-
Deferred taxation	823	-	-	-

In the 2013/14 financial year SARS allowed an accelerated deduction for the controlled entity's Intellectual Property (IP) when they submitted their tax return. The 33.33% accelerated depreciation rate allowed by SARS on the IP was included in the subsequent years but not accounted for in the 2013/14 financial year. Due to the accelerated depreciation rate for the IP, the controlled entity under provided for deferred tax in 2013/14 with R3 909 424.

## 35. Prior period adjustments (continued)

The controlled entity discovered that the permanent and temporary difference on the IP asset in the deferred taxation calculation was switched by error in the 2016/17 financial year. This resulted in the deferred taxation showing an increased liability (R822 398) due to the exclusion of the permanent difference amount. Both prior year errors were corrected in the current financial year.

In 2017, the controlled entity incorrectly classified (R80 593) an operating lease as professional and special services.

## 36. Risk management

### Capital risk management - controlled entity

The entity's objectives when managing capital are to ensure the entity's ability to continue as a going concern.

The controlled entity is geared mainly with a shareholders loan. To mitigate the risk associated with this type of financing the loan is interest free and has no fixed term of repayment.

The entity monitors capital on the basis of the debt: equity ratio.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The economic entity's risk to liquidity is a shortfall in funds available to cover commitments. The economic entity manages liquidity risk through strict budget management and maintaining sufficient cash and cash equivalents.

The controlling entity's chief source of income is an annual grant from National Treasury for funding of its operational and capital requirements. This grant is allocated in accordance with the provisions governing the (MTEF). The economic entity follows an extensive planning and governance process to determine its operational and capital requirements.

The table below analyses the economic and controlling entities' financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period calculated from the date of the statement of financial position to the contractual maturity date.

## 36. Risk management (continued)

### Economic entity

At 31 March 2018

Figures in Rand thousand (R'000)				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Finance lease obligations	17 067	17 821	-	34 888
Trade and other payables	402 251	-	-	402 251
Employee benefits	-	-	257 773	257 772

At 31 March 2017

Figures in Rand thousand (R'000)				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Finance lease obligations	9 673	10 847	22	20 520
Trade and other payables	302 999	-	-	302 999
Employee benefits	-	-	211 040	211 040

### Controlling entity

At 31 March 2018

Figures in Rand thousand (R'000)				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Finance lease obligations	17 023	17 799	-	34 822
Trade and other payables	413 337	-	-	413 336
Employee benefits	-	-	257 773	257 772

At 31 March 2017

Figures in Rand thousand (R'000)				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Finance lease obligations	9 629	10 782	-	20 411
Trade and other payables	309 202	-	-	309 202
Employee benefits	-	-	211 040	211 040

It is worth noting that the table above includes employee benefits at fair value for:

Leave accumulated prior to 1999. At the reporting date the fair value of this liability is estimated to be R9 320 308 (2017:R10 338 548) in comparison to a nominal value of R10 063 020(2017: R11 059 231).

Accumulated annual leave. At the reporting date the fair value of this liability is estimated to be R248 452 464 (2017: R200 651 740) in comparison to a nominal value of R278 168 993 (2017: R207 352 707).

Over and above the amounts disclosed in the table, the controlling entity also has housing guarantees that are recovered from the employee's salary and/or pension when the guarantees are claimed. The full liquidity risk associated with these guarantees as at 31 March 2018 was R591 073 (2017: R591 073).

### Interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis.

The economic and controlling entities' exposure to interest rate risk is limited. Interest rates implicit to the finance leases are not varied over the term of the lease contracts.



## 36. Risk management (continued)

### 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. The economic entity is exposed to credit-related losses in the event of non-performance by counter-parties to financial instruments.

The controlling entities' only deposit cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Staff debts are recovered directly from the employee's salary and/or pension in terms of the applicable policies and procedures.

Management has evaluated the probability of non-repayment of the loan by the subsidiary and has determined that in the case of default the loan could be restructured or converted into equity.

### Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The controlled entity provides services to one international customer and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The economic and controlling entities' does not currently hedge foreign exchange fluctuations.

## 37. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 38. Irregular expenditure

Figures in Rand thousand (R'000)				
	Economic entity		Controlling Entity	
	2018	2017	2018	2017
Opening balance	3 000	-	3 000	-
Performance bonus	4 352	3 000	4 352	3 000
Goods and/or services relating to prior years	54 269	191	54 269	191
Goods and/or services	42 812	3 447	42 812	3 447
Less: Amounts condoned	(2 022)	(3 638)	(2 022)	(3 638)
	<b>102 411</b>	<b>3 000</b>	<b>102 411</b>	<b>3 000</b>

If irregular expenditure was known in the prior year, it is disclosed in that year. If only discovered in the current year, relating to the prior year, it is disclosed in the current year relating to prior year expenses.

### 2018

In 2018 SARS paid bonuses of R4.352 million to the Executive Committee relating to the 2016/17 financial year in line with approval received. A request for condonement has been sent to the Minister of Finance.

According to National Treasury (NT) Instruction Note 3 of 2016/17 that came into effect on 1 May 2016, SARS should have sought prior written approval from National Treasury on EX043/2016 however the transaction was already at an advanced stage in line with the internal Delegation of Authority that was effective at the time.

### 38. Irregular expenditure (continued)

The NT Instruction Note was unclear on how transactions that are already in progress should be treated. SARS exercised caution and duly considered the urgency of the operational requirements whilst putting in place a transition plan to implement the NT Instruction Note on future transactions. The total cost of R38 138 million (2017: R54 269 million) is considered to be irregular expenditure, not condoned, as supply chain management prescripts were not followed.

(Expenditure for goods and services were incurred during the financial year to the value of R4 629 million) (2017: R3 638 million) of which R2 022 million (2017: R3 638 million) was condoned as at 31 March. This expenditure is considered irregular expenditure as supply chain management prescripts were not followed.

In 2017 SARS paid a total of R561 million in performance bonuses relating to the 2015/16 financial year of which R3 million was paid to members of the Executive Committee. The payment of the R3 million was based on legal opinions obtained by the SARS Accounting Authority which confirmed the powers conferred upon the SARS Commissioner by the SARS Act as amended in 2002 in particular Section 18(3).

Historically, SARS has sought consent from the Minister when effecting such performance bonus payments however on the strength of the legal advice obtained, the historical consent was not obtained. In order to put the legal opinions beyond interpretative doubt, SARS decided to seek a declaratory on the interpretation of the powers of the SARS Commissioner in as far as Section 18(3) of the SARS Act as amended in 2002 is concerned. To this effect, SARS has approached the Gauteng North High Court.

SARS however subsequently decided to withdraw from the declaratory process and will seek Ministerial consent for all future bonus payments. In order to comply with section 55(2) of the PFMA the charges of bonus payment as irregular expenditure was added to the charge sheet of Mr TS Moyane's disciplinary process that will commence in the 2018/19 financial year.

### 39. Fraudulent activities

The trial pertaining to the 2010 fraud case where a staff member allegedly colluded with outside suppliers to the value of R11.5 million began in October 2015. The State concluded their arguments on 23 May 2017 and the defence moved to challenge the State's evidence against his client. Judgement was handed down in August 2017 and the staff member was found not guilty. There is a possibility that the National Prosecuting Authority (NPA) will appeal the court ruling.

Management is committed to the process and continues to investigate and report all fraudulent activities identified.

The supplementary information presented does not form part of the financial statements and is unaudited.

## Annexure 1

### Tax Computation - controlled entity

	Rand
Net income per income statement	33 074 456
<b>Non-deductable/Non taxable items</b>	
Depreciation on leasehold improvements	133 439
Amortisation permanent difference portion	2 210 563
	<b>2 344 002</b>
<b>Temporary differences</b>	
Wear and Tear 2018	(2 307 943)
Depreciation	1 931 986
Actual payments of operating leases	(1 946 573)
Straight lining of operating leases - Office premises	1 948 376
Amortisation temporary difference portion	5 147 700
Provision on leave pay - 2017	(2 303 918)
Provision for bonuses - 2017	(5 420 875)
Provision for bonuses -2018	5 751 687
Provision on leave pay - 2018	2 146 934
Prepayments - 2017	698 851
Prepayments - 2018	(121 349)
Finance cost on finance leases	9 447
Finance lease payments	(43 758)
	<b>5 490 565</b>
<b>Taxable income</b>	<b>40 909 023</b>
Tax thereon @ 28%	11 454 526
<b>Tax liability</b>	
Amount prepaid at the beginning of year	(468 553)
Amount paid in respect of prior year	(14 994)
<b>Amount owing/(prepaid) in respect of prior year</b>	<b>(483 547)</b>
<b>Tax prepaid for the current year</b>	
<b>Normal tax</b>	
Per calculation	11 454 526
1st provisional payment	(7 087 762)
2nd provisional payment	(4 709 208)
	<b>(342 444)</b>
<b>Amount prepaid at the end of year</b>	<b>(825 991)</b>

	Controlling Entity	
	2018	2017
	R '000	R '000

The supplementary information presented does not form part of the financial statements and is unaudited.

## Annexure 2

### Donations in kind – controlling entity

Particulars of each donation or bequest accepted by SARS must be disclosed in accordance with section 24 (2) (b) of the South African Revenue Service Act (Act no. 34 of 1997).

1) World Customs Organisation (WCO)	970	633
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Travel and accommodation to attend various WCO training, events, regional workshops and meetings to Angola, Belgium, Botswana, Kenya, Lesotho, Malawi, Netherlands, Senegal, South Korea, Swaziland, Togo, Turkey and Zambia (2018). Sudan, Liberia and Uganda (2017).

2) United Nations	246	65
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Travel, accommodation and subsistence to attend various workshops and committee meetings (2018 and 2017).

3) Southern Africa Customs Union (SACU)	223	15
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Travel, accommodation and subsistence to attend SACU Enforcement Training (2018 and 2017).

4) Afritac	197	41
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Travel, accommodation and subsistence allowance to attend Regional Seminar. Travel, accommodation and subsistence to attend RAF IT training (2017).

5) Kenya Revenue Authority	159	-
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Travel, accommodation and subsistence for set up for transformation on Tax Authority and to provide technical assistance for implementation of data warehouse capability.

6) Norwegian Customs	86	-
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Travel, accommodation and subsistence to attend Registered Exporter System Training workshop.

7) Rwandan Revenue Authority (RRA)	80	-
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Travel, accommodation and subsistence to attend Technical Mission.

8) International Consortium on combating Wildlife Crime (ICCWC)	73	-
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Travel, accommodation and subsistence to attend Regional Enforcement meeting.

	Controlling Entity	
	2018	2017
	R '000	R '000

### Donations in kind – controlling entity (continued)

9) African Union (AU) Commission	65	15
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Travel, accommodation and subsistence to attend the 3rd AU Meeting and the Specialised Technical Group Meeting. Travel, accommodation and subsistence to attend the 2nd AU Meeting (2017).

10) African Tax Administration Forum (ATAF)	53	33
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Travel and Accommodation to attend the International Centre for Tax Dissemination Workshop. Travel and accommodation to attend the 6<sup>th</sup> ATAF CBT meeting (2017).

11) Korea Institute of Nuclear Non-proliferation and Control and International Nuclear Non-proliferation and Security Academy	48	-
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Travel, accommodation and subsistence for training at the Academy.

12) WCO – SA Customs Union (SACU)	44	14
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Travel, accommodation and subsistence to attend the Information technology, Data model and GEFEG (Connect Project). Travel and accommodation to attend a SACU meeting (2017).

13) Botswana Unified Revenue Service (Interfront)	-	254
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Travel and accommodation for the establishment of the BURS dog detector unit and graduation.

14) China Customs	-	243
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Travel, accommodation and subsistence to attend risk management seminars.

15) Korea International Cooperation Agency	-	52
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Travel, accommodation and meals to attend the 13th CBCTI capacity building conference

16) Office of Export Control Cooperation	-	43
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Travel, accommodation and meals to attend training and strategic trade management.

17) International Monetary Fund	-	35
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Travel and accommodation to attend the TPA-TTF Seminar on Managing Tax Admin Reform Programs and the Hackathon in Senegal.

	Controlling Entity	
	2018	2017
	R '000	R '000

### Donations in kind – controlling entity (continued)

18) Korea Customs Co-operation Fund	-	31
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Travel, accommodation and subsistence to attend WCO Operation CATalyst debriefing seminar.

19) South African Development Community (SADC)	-	28
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Travel and accommodation delegation to support the SADC VAT task team. Travel and Accommodation to attend events sponsored by the South African Development Community.

20) WCO Japanese Customs Cooperation Fund	-	12
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Travel, accommodation and subsistence to attend NCO workshop.

## Abbreviations and Acronyms

ACTT	Anti-Corruption Task Team
ADR	Alternative Dispute Resolution
AEOI	Automatic Exchange of Information
AMCHAM	American Chamber of Commerce
APP	Annual Performance Plan
ARCC	Accreditation Review Customs Committee
ASB	Accounting Standards Board
ATAF	African Tax Administration Forum
ATR	Advance Tax Ruling
AU	African Union
B2B	Business to Business
BAIT	Business and Individual Taxes
BASA	Banking Association of South Africa
BBBEE	Broad-based Black Economic Empowerment
BBC	Black Business Council
BBEC	Black Business Executive Circle
BCI	Business Confidence Index
BCM	Business Continuity Management
BEPS	Base Erosion and Profit Shifting
BER	Bureau of Economic Research
BITF	Black Information Technology Forum
BLNS	Botswana, Lesotho, Namibia and Swaziland
BMA	Border Management Agency
BRICS	Brazil, Russia, India, China and South Africa
BRUS	Botswana Unified Revenue Service
CAM-I	Consortium for Advanced Management International Institute
CbC	Country-by-Country
CBCTI	Community Based Conservation Training Institute
CEO	Chief Executive Officer
CFA	Committee on Fiscal Affairs
CFOs	Chief Financial Officers
CIOs	Chief Information Officers
CIPC	Companies and Intellectual Property Commission
CIT	Company Income Tax
CO	Chief Officer
COGTA	Co-operative Governance and Traditional Affairs
CRE	Customs Risk Engine
CRS	Common Reporting Standards
CSD	Central Supplier Database
CSK	Customs Sufficient Knowledge
CTC	Cost to Company
CTS	Common Transmission System
DAFF	Department of Agriculture, Forestry and Fisheries
DHA	Department of Home Affairs
DIST	Digital Information Systems and Technology
DLP	Data Loss Prevention
DPME	Department of Planning, Monitoring and Evaluation

DPS	Declaration Processing
DRM	Domestic Resource Mobilisation
DRMC	Divisional Risk Management Committees
DT	Dividends Tax
EAL	Eskom Academy of Learning
e-DNA	Electronic DNA
E EI	Employee Engagement Index
ENE	Estimates of National Expenditure
EPPF	Eskom Pension and Provident Fund
ER	Employee Relations
ERM	Enterprise Risk Management
ETI	Employment Tax Incentive
EU	European Union
EXCO	Executive Committee
FATCA	Foreign Account Tax Compliance Act
FIFO	First-in, First-out
FITA	Fair Trade Independent Tobacco Association
FNB	First National Bank
FSBBC	Free State Black Business Chamber
FTA	Forum on Tax Administration
GDP	Gross Domestic Product
GE	Group Executive
GISC	Governance, International Relations, Strategy and Communications
GITOC	Government Information Technology Officer's Council
GRAP	Generally Recognised Accounting Practice
HFCE	Household Final Consumption Expenditure
HR	Human Resources
IARM	Integrated Account and Revenue Management
ICASA	Independent Communications Authority of South Africa
iCBS	Interfront Customs Business Solutions
ICWC	International Consortium on Combating Wildlife Crime
ICT	Information and Communications Technology
IESBA	International Ethics Standards Board for Accountants'
IMF	International Monetary Fund
IP	Intellectual Property
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISAD IGR	Information Society and Development International and Governance Relations
ISAS	International Standards on Auditing
IT	Information Technology
IT PPPs	Information Technology Public Private Partnerships

JITSIC	Joint International Taskforce on Shared Intelligence and Collaboration
KPIs	Key Performance Indicators
KZN	KwaZulu Natal
LEI	Leadership Effectiveness Index
LLB	Bachelor of Law
LLM	Master of Laws
MAAA	Mutual Administrative Assistance Agreement
MBA	Masters in Business Administration
MBL	Masters in Business Leadership
MDP	Management Development Programme
MNEs	Multinational Enterprises
MOC	Memorandum of Co-operation
MOU	Memorandum of Understanding
MPRR	Mineral and Petroleum Resource Royalties
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTUs	Mobile Tax Units
NCAP	New Customs Act Programme
NCO	Non-Commissioned Officer
NCOP	National Council of Provinces
NPA	National Prosecuting Authority
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
ORTIA	OR Tambo International Airport
OSBP	One Stop Border Post
OSS	One Stop Shop
OTO	Office of the Tax Ombud
P&DM	Public and Development Management
PAA	Public Audit Act
PAYE	Pay-As-You-Earn
PFMA	Public Finance Management Act
PHD	Doctor of Philosophy
PIT	Personal Income Tax
PPPs	Public Private Partnerships
PTP	Preferred Trader Programme
PV	Photovoltaic
QA	Quality Assurance
QAR	Quality Assessment Review
RAF	Road Accident Fund
RCBs	Recognised Controlling Bodies
RCG	Reporting of Conveyance and Goods
RLA	Registration, Licencing and Accreditation
ROCB	Regional Offices for Capacity Building
RRA	Rwandan Revenue Authority
RSN	Report of Suspected Non-compliance
S&P	Standard and Poor's
SA	South Africa

SAA	South African Airways
SACTWU	South African Clothing and Textile Workers Union
SACU	Southern African Customs Union
SADC	South African Development Community
SADDT	South African Disability Development Trust
SADO	South African Disability Organisation
SALGA	South African Local Government Association
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBL	Sugary Beverages Levy
SCOF	Standing Committee on Finance
SCOPA	Standing Committee on Public Accounts
SDL	Skills Development Levy
SEIAS	Socio-Economic Impact Assessment System
SIOL	SARS Institute of Learning
SITA	State Information Technology Agency
SMART	Specific, Measurable, Achievable, Realistic and Time-bound
SMME	Small, Medium and Micro Enterprises
SMP	Senior Management Programme
SOEs	State Owned Enterprises
SR	Social Responsibility
STC	Secondary Tax on Companies
SWIMS	State Warehouse Infrastructure Management System
TBVC	Transkei, Bophuthatswana, Venda, Ciskei
TCS	Tax Compliance Status
TEU	Tax Exemption Unit
the dti	Department of Trade and Industry
TISA	Tobacco Institute of Southern Africa
TIWB	Tax Inspectors Without Borders
TOR	Terms of Reference
TPA TTF	Tax Policy and Administration Tropical Trust Fund
TPV	Taxpayer Verification
TVOC	Tariff, Valuation and Origin Committees
UIF	Unemployment Insurance Fund
UNDP	United Nations Development Programme
UNISA	University of South Africa
US/A	United States of America
VAT	Value-Added Tax
VPN	Virtual Private Network
WCO	World Customs Organisation
WCO ESA	World Customs Organisation East and Southern Africa
WEO	World Economic Outlook
WESGRO	Western Cape Government
WFP	Workforce Plan
WITS	University of the Witwatersrand
YoY	Year-on-year



# ANNUAL REPORT



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