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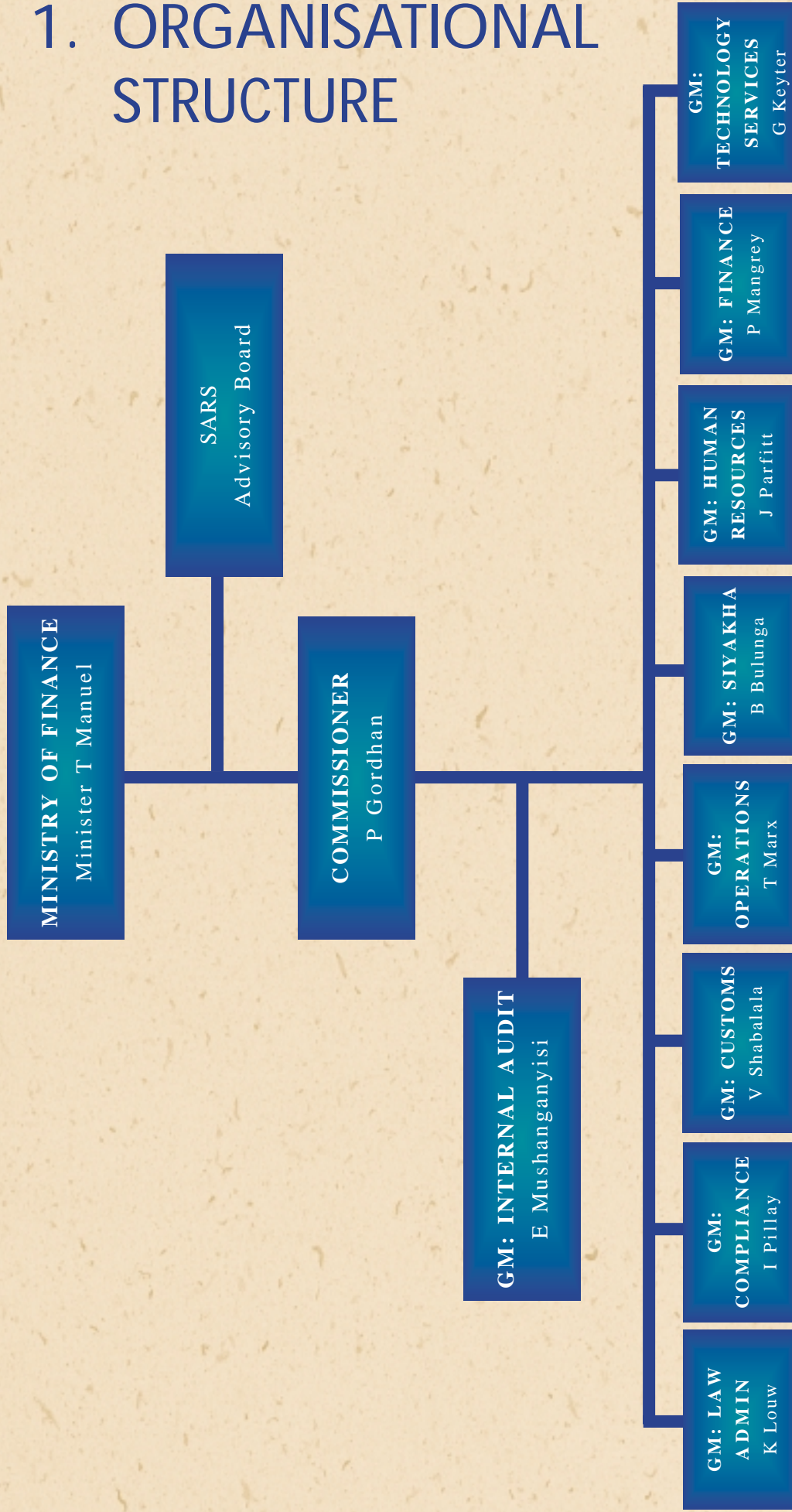




ABBREVIATIONS AND ACRONYMS

ACCA	Association of Certified Chartered Accountants
AG	Auditor-General
DTA	Double Taxation Agreement
DTI	Department of Trade and Industry
EU	European Union
EXCO	Executive Committee
GAAP	Generally Accepted Accounting Practice
HR	Human Resources
IDASA	Institute for a Democratic Alternative South Africa
IIA	Institute of Internal Auditors
ILO	International Labour Organisation
MBA	Masters of Business Administration
MST	Marketable Securities Tax
MTA	Master Taxation Authority
NDA	National Department of Agriculture
NEHAWU	National Education Health and Allied Workers Union
NITS	New Income Tax System
PAYE	Pay-as-you-earn
PBO	Public Benefit Organisation
PFMA	Public Finance Management Act
PSA	Public Service Association
RAU	Rand Afrikaans University
RFT	Retirement Fund Tax
SA	South Africa
SADC	Southern African Development Community
SARS	South African Revenue Service
SETA	Sectoral Education and Training Authority
STC	Secondary Tax on Companies
TSD	Technology Services Division
US	United States
USAID	United States Agency for International Development
VAT	Value-Added Tax
Y2K	Year 2000

1. ORGANISATIONAL STRUCTURE



2. COMMISSIONER'S REVIEW

It gives me great pleasure to present the Annual Report of the South African Revenue Service for 1999/2000.

The year under review has been a watershed period for the fundamental transformation of SARS. It has been both a challenging and rewarding year for SARS in many different ways and was a year in which a triple mandate developed, namely maintaining the existing organisation, implementing incremental changes and radically reviewing SARS' capacity and potential.



THE LEGACY

The year under review was a frank reminder of the legacy that SARS inherited from the past, especially in the following areas:

- **Systems and Technology** - The organisation had limited automation, non-integrated and old systems coupled with outdated and/or unreliable hardware and software
- **Processes** - SARS was a functional driven organisation and the processes were not integrated
- **Human Resources** - The organisation had very limited skills in the fields of information technology, management and accounting. Instead, there was a steep organisational structure, which resulted in low staff morale and internal fraud. In terms of race and gender, there was a major imbalance
- **Financial** - Although SARS is required to comply with GAAP in terms of the SARS Act, there are no definitive norms and standards for compiling the annual financial statements. As a result of poor systems and skills levels resulted in weak financial controls.
- **Communication and Service** - Communication, both internal and external, and taxpayer service were extremely poor. There was also a lack of control over key resources such as border posts
- **Tax Systems** - Following the demise of the homelands, SARS inherited eleven tax administrations all with different rate structures. High corporate tax rates, fiscal drag, excessive exemptions, low compliance levels and high fraud had narrowed the tax base
- **Customs** - A lack of proper systems and manual processes resulted in unreliable and inadequate data, prohibiting effective and efficient customs administration.

PERFORMANCE

In the year under review significant changes, although mainly incremental, were achieved. This report reflects some of the changes in operational processes, human resources systems, technology enhancements, and the legal framework within which both the customs and tax components work.

Last year was also a year in which new managerial blood was introduced at national, regional and branch-level. These men and women have begun to make a significant contribution.

Despite the challenges that still remain, SARS staff has performed extremely well in recent years. Over the last four years, SARS has collected more than R20 billion in revenue over and above initial forecasts, and has achieved strong nominal revenue growth averaging 13% per year. Revenue collection continued to exceed expectation in the year 1999/2000, with SARS collecting a record R200 billion for the South African citizens. The benefits of this cannot be underestimated: it reduced the budget deficit, it will indirectly lead to the lowering of interest rates, government will borrow less money and it will positively boost investor confidence.

TAX MORALITY

One of the obligations that every citizen has to the state in a democratic order is to pay tax and to contribute to a socially acceptable level of tax and customs compliance.

The tax system stands at the centre of our democracy. It directly affects the everyday lives of virtually every citizen and, indirectly, has a profound influence on the economy - South Africans need more social services, and Government needs more money to deliver these services. We have to grow our economy and increase our tax base.

The customs regime in South Africa has a similar pivotal role: protecting the South African economy and facilitating the growth of South African business.

South Africa is sadly plagued by a low tax morality, which has led to an increase in tax fraud and criminality, which translated in an estimated R20 - R30 billion tax gap for the country. Tax compliance and its alter ego, tax criminality, remain a major concern. For the benefit of the country as a whole, SARS is committed to combating any form of tax fraud. Tax fraud is a deliberate evasion of one's duties as a citizen, while at the same time taking advantage of the benefits of citizenship. Through such action, an added burden is cast on those members of the community who bear their tax obligations with integrity. There is a new compliance climate that is beginning to develop in South Africa, but more has to be done to turn this around. This weakness arises because there are:

- business persons, small and large, who demand that government must deliver on its undertakings but effectively sabotage good governance and foster the very lawlessness they decry, by not paying their taxes;
- professionals in tax and customs matters who build their fortunes by devising one scheme or another to reduce flows to the fiscus;
- syndicates whose primary aim is conspiring to steal millions of Rand from the fiscus through VAT and customs fraud; and
- ordinary citizens who either do not realise, or who do not care that they are participating in tax evasion by not registering for tax at all.

KEY PERFORMANCE INDICATORS

The key performance indicators for SARS in the coming year are:

- a) improved revenue collections and our ability to reduce the tax gap as well as to close loopholes that currently exist;





- b) tighter customs control and a new assertiveness in order for the industry and the local economy to have full confidence in the SA Customs;
- c) collaboration with the private sector;
- d) changes in Human Resources;
- e) improvements in technology;
- f) business process changes;
- g) new management talent;
- h) partnership with Trade Unions; and
- i) better control over expenditure.

FINANCIAL CONTROLS

There was a disclaimer of audit opinion by the Auditor-General for 1998/1999 financial year and unfortunately this is the case again for the 1999/2000 financial year.

SARS was expected to comply with GAAP from the date of autonomy. However, a realistic period should have been provided for.

The SARS Act which created an autonomous SARS in October 1997, prescribed that the organisation would comply with GAAP.

However, for both Own Accounts and Administered Revenue

- no transition process and period was defined for the implementation of GAAP;
- on the other hand, the PFMA, which came into effect on 1 April 2000 allows a period of three years for departments and entities to fully comply with GAAP;
- the legacy of inadequate operational processes and controls, poor skills levels and the inappropriate technology and accounting systems had to be recognised.

These factors contributed to the disclaimer of audit opinion by the AG.

The current SARS management is cognisant of its responsibilities and has accordingly put the following measures in place of assertively addressing the concerns raised by the AG.

In respect of Own Accounts:

- SARS has engaged consultants to assist with resolution of the key historical problems.
- The annual financial statements with the supporting reconciliations at 31 March 2000 were finalised in compliance with GAAP.
- Policies and procedures will soon be implemented.
- Regular reconciliations are now being prepared.
- The fixed assets register management project with a milestone of 28 February 2001 has been initiated.
- The registry and filing systems are now more robust.

With regard to Administered Revenue:

- A project has been initiated to address the reconciliation of the net cash received and the implementation of policies and procedures.
- Phase one of an integrated financial management system will be implemented in the first 6 months of the 2001/2002 financial year.
- The implications and considerations of the integration thereof to the individual core tax systems will then be evaluated.



In recent months extensive discussions took place amongst National Treasury, Auditor General and SARS. These discussions focussed on:

- The application of Generally Accepted Accounting Practice (GAAP) whilst acknowledging that there are no definitive applicable GAAP rules either locally or internationally.
- Interpretation and application of the Public Finance Management Act (PFMA) Act No 1 of 1999 for SARS Administered Revenue.
- Anticipated pro-active implementation at 31 March 2000 of the PFMA.
- Recognition of the transitional period provided for implementation of the PFMA.
- The nature and content of Generally Recognised Accounting Practice (GRAP) and Cash Accounting as provided for in the PFMA together with the applicable gazetted Treasury Regulations.

An opinion was obtained from the Chief State Law Adviser who was of the opinion that SARS would have to comply with GAAP.

The management of SARS is totally and irrevocably committed to minimising all deficiencies in the SARS system. The plans are in place to achieve this. However the complexity of SARS's mandate, the need to ensure both transformation and uninterrupted revenue collection, and the availability of resources will all influence our ability to implement our plans.

TRANSFORMATION

To take SARS to the next level of improved revenue collection and customs control, we have initiated a transformation program, Siyakha, which will diagnose and re-engineer all business processes over the next three years.

Its successful implementation should raise the status of SARS as a leading customs and revenue administrator in the global arena. It is however important to note that the magnitude of the problems SARS inherited and the program put in place to effect the change required, can only be affected over a three year period. Many of the problems that SARS have today will still be with us next year. In particular those problems highlighted by the Auditor-General are systemic problems that can only be addressed over a longer time period.

I would like to thank senior management in SARS for their continuous support and creative input on South Africa's tax reform programmes. I also thank the staff for their commitment to improving the service to the taxpaying public and importer and exporter.

The support and encouragement of the Minister Trevor Manuel and Deputy Minister Sipho Mphahla was greatly appreciated.

Lastly, I would like to thank the people whom we serve for their cooperation and support.

PRAVIN GORDHAN
19 December 2000

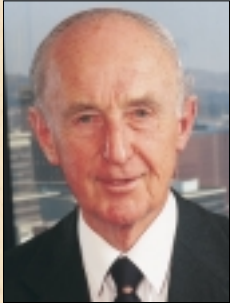
3. SARS EXECUTIVE COMMITTEE



Standing from left to right: Ivan Pillay: General Manager - Compliance; Gerhard Keyter: General Manager - Technology Service; Prakash Mangrey: General Manager - Finance; Andrew Fisher: General Manager - Revenue Analysis; Edward Mushanganyisi: General Manager - Internal Audit

Sitting from left to right - Bhabhalazi Bulunga: General Manager - Siyakha; Thinus Marx: General Manager - Revenue Operations; Kosie Louw: General Manager - Law Administration; Judy Parfitt: General Manager - Human Resources; Pravin Gordhan: Commissioner for SARS; Vuso Shabalala: General Manager - Customs Operations

4. SARS ADVISORY BOARD



The Honourable Mr Justice M M Corbett

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



Mr Pravin Gordhan

Commissioner for the SARS
Member of the SARS Advisory Board and Transformation Committee.



Mr Sizwe Errol Nxasana

Deputy Chairperson of the SARS Advisory Board and Chair of the Audit Committee.
Currently CEO of Telkom SA.



Mr Eric Mafuna

Member of the SARS Advisory Board and chairman of the Transformation Committee.
Managing Director and Senior Consultant - Africa Now (Pty) Ltd.



Professor Anthony Asher

Member of the SARS Advisory Board and serves on the Audit Committee.
Professor and Director of Actuarial Studies: University of the Witwatersrand.



Ms Dolly Doreen Mokgatle

Member of the SARS Advisory Board and the Transformation Committee.
Executive Director: Transmission Eskom.



Professor Dilip Garach

Member of the SARS Advisory Board and serves on the Transformation Committee.
Chartered accountant and tax specialist.



Ms Truida Prekel

Member of the SARS Advisory Board and the Transformation Committee.
Management Consultant - Truida Prekel Consultants.



Mr William Selwyn MacFarlane

Member of the SARS Advisory Board and the Audit Committee.
Former Group Deputy Chairman - South African Breweries.





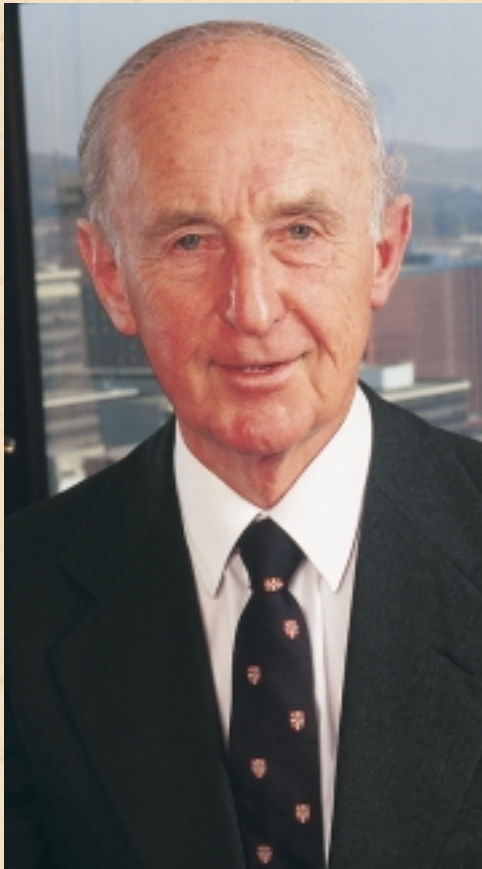
5. CHAIRMAN'S REPORT

It gives me much pleasure to contribute to this, the SARS Annual Report 2000, on behalf of the SARS Advisory Board. The year under review has been one of momentous change and significant achievement for SARS.

Firstly, warmest congratulations to SARS on its outstanding achievement in collecting revenue well in excess of its target, which continues the fine record established in the previous four years. The growth in revenue, has once again had a highly beneficial effect on the national economy, and confirms the importance of the plans SARS has to improve its performance even further in the coming years.

The year 2000 saw a change in the leadership structure at SARS with the resignation of Trevor van Heerden and the appointment of Pravin Gordhan as the Commissioner. Trevor van Heerden had a long and distinguished career at SARS and was instrumental in the establishment of SARS as an autonomous body. I would like to congratulate him on his fine achievements and to thank him for his cooperation, and wish him well in his new endeavours. The Board was delighted to welcome Pravin Gordhan as the new Commissioner. His enthusiasm and innovative approach will stand him in good stead for the challenging times ahead for SARS and for the realisation of the transformation that he commenced as Deputy Commissioner. He has the fullest support from the Board and I wish him a long and fulfilling career at SARS.

Over the past year, SARS has had to ensure that there was "business as usual" whilst simultaneously initiating extensive and fundamental transformation processes. The environment in which it operates continually presents new challenges to which it must rise. SARS plays a pivotal role in many of the new processes currently taking place, such as fundamental changes in the Government's tax reform process and participation in regional initiatives in both revenue and customs activities. By improving collection processes and through joint efforts with other government agencies, SARS has had noteworthy successes in the attempt to improve tax morality and compliance in the country. At the same time, SARS has undertaken extensive internal changes to its support services to ensure that staff will be well equipped for the new organisation.



The problems with the financial systems as reported by the Auditor-General have been vigorously tackled. Many of these are unfortunately systemic, and, whilst significant improvements have been made this financial year, a great deal of hard work is still required to reach the standards envisaged. SARS has had to rectify systems and skills that were unsuited to the new standards demanded of it, such as conformity with Generally Accepted Accounting Practice. Problems of this nature are not remedied overnight. Whilst acknowledging that it still has some way to go to meet the required standards, credit should be given for the enormous improvements made this year, and I thank the Commissioner and his staff for their tireless commitment to resolving these difficulties.

A continuing concern for the Board is the issue of ensuring adequate financial resources for SARS to fulfil its transformation plans. A lack of resources is placing severe constraints on these plans and negatively affecting the momentum of the process. The importance of creating and sustaining improved revenue collections for the national economy cannot be overemphasised. We, as a Board, believe this can only be achieved if SARS is adequately resourced and we are therefore seeking innovative ways of providing such funding.

Finally, I wish to thank the Commissioner and staff of SARS for their unstinting efforts in the creation of a new SARS, as well as my colleagues on the Board for their valued contribution to this end.

A handwritten signature in black ink, appearing to read 'M. M. Corbett'.

M. M. CORBETT
Chairperson
SARS Advisory Board





6. THE TRANSFORMATION PROGRAMME (SIYAKHA)

INTRODUCTION

The SARS is the product of the amalgamation of the former Inland Revenue and Customs and Excise Departments and it employs approximately 11 000 people in 88 offices countrywide.

Since SARS became administratively autonomous in October 1997, the organisation has embraced change at many levels. Operational processes, management styles, information technology systems, and human resources practices have all undergone change.

Improved efficiency has been especially noticeable in revenue collection performance. For the period 1995/96 – 1999/2000, SARS has collected R16 billion above the targets set by Department of Finance as well as an additional R8.8 billion for efficiencies already built into the target, which then adds up to a total of R25,199 billion additional revenue. Nominal revenue growth has averaged 13% per year. SARS' positive impact on the economy has been amply demonstrated in recent years. This has helped contribute to:

- lower national budget deficit;
- reduced corporate and individual income tax rates;
- increased social service provision by government; and
- reduced government borrowing costs.

Despite these achievements, the SARS management firmly believes that there is a burning need for change in the organisation as SARS still performs significantly below its full potential.

Achievements to date have been the product of incremental rather than fundamental change. Key inefficiencies must still be addressed. This view is supported by experts from customs and revenue administrations in the United Kingdom, the United States and Sweden, who have highlighted the need for further transformation, as have other international benchmarking exercises conducted by SARS.

Without further far-reaching change, SARS will fail to close the tax gap, estimated at around R20 billion. Its ability to enforce international trade agreements will also be compromised.

Given this background, SARS' corporate plan for this financial year, as well as the next three years, will focus primarily on ways to substantially improve the efficiency of SARS' revenue collections and customs control. The central challenge for SARS is therefore to undergo transformation while at the same time attaining its targeted revenue of R212 billion for the year 2000/2001. SARS is acutely aware that it cannot falter. Any mistake will reverberate throughout government and will impact on all of South Africa.

SARS has, therefore, embarked on a mission to create a new Business Architecture aimed at achieving the above-mentioned goals. The transformation programme, known as Siyakha ("we are building"), involves the fundamental re-organisation of the business and its processes. The mission is divided into two phases: a high level diagnostic phase and a detailed implementation phase.

The diagnostic phase includes revenue, customs, and excise-specific, as well as common initiatives. To establish the impact on the external and internal environment, more specifically the taxpayer base, the human resources, the legislative requirements, the organisational infrastructure and the technological platform required to support this massive undertaking are being deployed. The consequences of the proposed initiatives have to be taken into consideration.

The implementation phase of the initiatives is expected to last at least 24 months. There are many opportunities for SARS to achieve successes, as well as create organisational momentum and support for the transformation process, as certain components of the initiatives can be implemented between three and nine months.

The primary objective of this three-year programme is to substantially improve the efficiency of SARS revenue collection and customs control by:

- developing a high-level taxpayer and business strategy;
- redesigning revenue and customs business policies and processes;
- changing organisational infrastructure in line with redesigned processes;
- eliminating existing inefficiencies;
- dramatically improving taxpayer service and relations;
- changing the technology systems and infrastructure; and
- promoting integrity and professionalism among staff.

This project will significantly impact on SARS' budget and other areas of operation.





CHALLENGES AND OPPORTUNITIES

Several factors will determine and impact upon the implementation of the transformation program, Siyakha. The following internal as well as external factors will impact on, and influence the outcome of SARS transformation program.

Internal challenges

These internal challenges were highlighted during the diagnostic phase of Siyakha.

The organisational structure was inefficient

The structure was bureaucratic, with too many layers of management and narrow spans of control. The predominant mode of organisation was determined by function rather than process, and was characterised by a lack of uniformity across branch offices. Other shortcomings included inadequate attention to taxpayer service, and a lack of integration of customs and revenue operations, resulting in duplication of activities.

Core business processes are inefficient

Process duplication exists across tax types (income tax, value-added-tax, PAYE). All processes (registration, assessment, collections, audit) are performed at each of the 42 revenue offices.

Human resources practices are weak in some areas

Significant progress has been made on this front, but much work remains. Retention of staff, especially in key functions such as audit, is a cause for concern. Allocation of employees is sub-optimal. A performance management system is in the process of implementation. Training is not adequately addressing the key skill shortages, and a greater focus on on-the-job training is required.

External challenges

Electronic Commerce

Electronic commerce technologies will open up new ways through which SARS can undertake its business of administering tax law and collecting tax revenue. Through e-commerce, taxes can be administered and collected electronically, enabling us to interact with the wider community in a more efficient and accessible manner. It will primarily create new taxpayer service opportunities, but it will also change the character of the tax administration, while at the same time creating new compliance challenges.

Taxpayer service opportunities

- Improving service standards;
- Communications facilities and access to information can be enhanced to assist taxpayers and to improve response times (for example, e-mail);

- Minimising business compliance costs;
- Tax registration and filing requirements could be simplified and norms promoted for the acceptance of electronic material;
- Enhancing voluntary compliance;
- Electronic assessment and collection of tax could be encouraged; and
- Easier, quicker and more secure ways of paying taxes and obtaining tax refunds could be facilitated.

Tax administration and compliance issues

Electronic commerce has the potential to amplify significantly some existing areas of risk to tax compliance. The challenge facing revenue authorities is to adapt the existing regulatory framework, as they may risk facing a significant decrease in tax revenue as more trade of intangibles takes place over the internet. These risks emerge from:

- taxpayers using the internet to conceal their identity, their location and/or particular transactions;
- encryption of documents and financial records or the holding of records in other jurisdictions to try and prevent the tax administrations gaining access to them; and
- any electronic record keeping systems which allow transactions to take place without leaving an audit trail or where the trail may be easy to alter or destroy.

Criminal Elements

Organised criminal elements (including white-collar financial crimes in legal industries and a broad base of individuals) continuously devise schemes to evade tax and therefore widen the tax gap. The impact of these schemes can be huge on revenue collections. The danger lies in consultants, individuals and firms who overstate personal or business expenses, falsify deductions, claim unallowable credits or excessive exemptions on returns. Overstatement of expenses on tax returns could result in fraudulent refunds.

AIDS

The Aids epidemic affects the economically active section of the population (ages 18-49). The epidemic will impact negatively on the skilled labour force, consumption, savings, and economic growth. Direct and indirect costs to firms may rise.

Consequently, tax revenues may decline in the following areas:

- **Income tax**
- PAYE may decline as more people withdraw from work due to Aids;
- Increased medical costs and reduced savings could decrease a taxpayer's taxable income and therefore reduce revenue collections; and





- Reduced household consumption, reduction in labour productivity and increased direct and indirect costs to firms will reduce companies' profits.

– VAT

- A definite slowdown in consumption due to reduced spending could impact negatively on VAT collections.

Irrelevance of National Boundaries

Given the trends in the global economy, tax reforms will increasingly entail external (regional or international) co-ordination, as well as internal administrative or legislative action.

In 1999 National Treasury was elected to chair a Southern African Development Community (SADC) working group on improving tax co-operation in the region. Its overarching objectives are to provide an attractive environment for foreign direct investment, encourage employment opportunities and promote stability and growth throughout the region. In respect of both tax and customs matters, SARS will also increasingly intensify collaboration with administrations of SADC countries. Consistent with these objectives the group will work towards three goals namely:

- Reducing harmful tax competition;
- Reducing tax-related costs of intra-SADC trade and investment; and
- Reducing revenue losses from smuggling and tax fraud.

Globalisation

Globalisation has positive and negative elements which affect SARS' revenue. While all countries now have easier access to each other for investment and trade, those with weaker economies are adversely affected by turmoil in stronger economies. For example, changes in the US financial market usually influence the SA markets. If the dollar strengthens because of strong growth in the US economy, our exchange rate to the dollar could weaken, thus directly influencing imports and exports. This is only one example of how SARS' revenue could be affected by external events.

Technology

Technology has dramatically changed production methods, trade between countries and service delivery to customers over the past few years. Companies that are benefiting the most from these developments are those involved in the development of microchips, computer programmes, infrastructure for data transfers and the Internet. It is these "new age" companies - on which investors are now focusing - that help other organisations to stay competitive, cost effective and to keep up with the changing environment.

This change in the technology environment has a direct impact on SARS.

Competitiveness of SA Tax Regime

Since 1960 many countries have undergone major tax reforms. Common objectives of all these reforms has been to simplify the tax structure thus reducing the difficulty of public administration of the tax system and reducing the private effort required to comply with the tax laws; minimising tax evasion and tax avoidance; develop a stable tax system.

Tax Competition

There is competition amongst countries, especially developing countries, for investment. Countries rationalised that heightened competition, or the need to compensate investors for perceived infrastructure or other disadvantages, necessitated tax breaks for direct investment, as well as financial flows. The export orientation of these economies and the vigorous use of tax incentives and discretionary privileges took tax competition to a new level.

Tax competition, however, compounds the task of tax administration, which in most countries are already failing to keep pace with the scale and complexity of capital flows. South Africa is chair of the SADC working group on improving tax co-operation in the region and one of its objectives is to reduce harmful tax competition.

Tax System

For stability of a tax system, it is necessary that:

- The legislation is well written to eliminate unintended tax exemptions or deductions (loopholes);
- The statutory rates of tax for each of the taxes are not so high as to create powerful incentives to promote tax avoidance schemes or to stimulate tax evasion activity;
- The tax revenue is adequate and consistent over the years; and
- The tax system is simple and the combined cost of administration and compliance is low.





7. STATEMENT OF CORPORATE GOVERNANCE

SARS is committed to the principles of openness, integrity and accountability in its dealings with all its stakeholders.

The primary objective of any system of corporate governance is to ensure that the advisory board and executive committee, to whom the running of the organisation has been entrusted by the stakeholders, carry out their responsibilities faithfully and effectively, placing the interests of the organisation ahead of their own.

This process is facilitated through the establishment of appropriate reporting and control structures within the organisation.

SARS believes that, in all material respects, it complies with the provisions of the King Report's Code of Corporate Practices and Conduct.

KEY ASPECTS OF THE SARS' SYSTEM OF CORPORATE GOVERNANCE:

ADVISORY BOARD

The Advisory Board includes EXCO members who are chosen for their business acumen and skills. The Advisory Board meets regularly and monitors the performance of SARS and its executive management. It addresses a range of key issues and ensures that debate on matters of policy, strategy and performance is critical, informed and constructive. All Advisory Board members of SARS have access to the advice and services of SARS staff and, in appropriate circumstances, may seek independent professional advice concerning the affairs of the organisation at SARS' expense.

AUDIT COMMITTEE OF THE BOARD

The Audit Committee is chaired by an independent non-EXCO member and operates in terms of a formally approved Audit Committee Charter, which clearly sets out the roles and responsibilities of committee members. The auditors have unrestricted access to this committee and the chairman of the committee. The Audit Committee reviews the effectiveness of the systems of internal control adopted by SARS operations with reference to the findings of

the auditors. Other areas covered include the review of important accounting issues, specific disclosures in the annual financial statements and a review of the major audit recommendations.

TRANSFORMATION COMMITTEE

Remuneration

The committee advises the Board on remuneration matters affecting SARS in general. This includes pension and provident schemes, incentive schemes, benefits and annual increases. The committee also reviews and amends policies, procedures and principles regarding the remuneration of Board members. The committee sets the remuneration of the Commissioner and people reporting to him.

Human Resources

The Committee also reviews, monitors and oversees SARS policies and practices regarding human resources, particularly with reference to succession, employment equity, training and industrial relations.

The Committee is also responsible for communication and transformation issues.

ANNUAL FINANCIAL STATEMENTS

The Commissioner is responsible for preparing the annual financial statements and other information presented in the annual report in a manner that fairly presents the state of affairs and results of the operations. The external auditors are responsible for carrying out an independent examination of “*inter alia*,” the annual financial statements and reporting their findings thereof. The auditors’ report is set out on page 48-55 and 69-72.

The annual financial statements contained on page 47 to 85 have been prepared in accordance with applicable laws and regulations. They are based on appropriate accounting policies and are supported by reasonable and prudent judgements and estimates. The Executive Committee has no reason to believe that SARS’ operations will not continue as going concerns in the year ahead.

MANAGEMENT REPORTING

There are comprehensive management reporting disciplines in place, which include the preparation of annual budgets by all operating units.

The relevant general managers approve individual operational budgets, while the Executive Committee reviews the budget. Monthly results and the financial status of operating units are reported against approved budgets and





compared with the previous year. Revenue and Expenditure projections and working capital levels are monitored on an ongoing basis.

INTERNAL CONTROL

SARS has put in place internal control measures and systems designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in various ways, depending on the particular circumstance. SARS has risk and loss control procedures in place, which are integral to our insurance programme.

ETHICS

Executive Committee, management and employees are required to observe the highest ethical standards ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach. SARS has an approved code of ethics to which all staff is required to adhere.

AFFIRMATIVE ACTION

SARS is committed to providing equal opportunities for its employees regardless of their ethnic origin or gender. Affirmative action strategies are in place to ensure that employees' profiles will be more representative of the demographics of the regions. Progress in this key area is monitored at Board level.



8. PROFILE OF DIVISIONAL ACTIVITIES

8.1 REVENUE COLLECTION

Aiming for Increased Revenues

Driven by the will to succeed, the SARS' Operations Division had set itself the challenge of not just achieving, but of exceeding the revenue target of R193 billion for the 1999/2000 financial year by collecting R200 billion.

The New Income Tax System (NITS)

The implementation of NITS already improved the turn-around time of assessments and these are now processed consistently. The development of electronic interfaces with various institutions, such as the deeds office, banks and life insurance companies, will speed up the assessment process considerably, as well as encourage accurate declaration of total income by taxpayers.

Further developments include interfaces with external parties such as Johannesburg Stock Exchange, Department of Home Affairs, etc.

Electronic Submission of Employee Tax Certificates (IRP 5's)

In 1999 a system which generates electronic employees tax certificates was implemented. The validation measures built into the system ensure that all the components of gross remuneration are declared on the certificates. This enables automated calculation in respect of each individual certificate by the PAYE system which does calculations according to the prescribed statutory rates of tax during the reconciliation process. As the process is automated, discrepancies in respect of certificates issued by employers will be clearly identified.

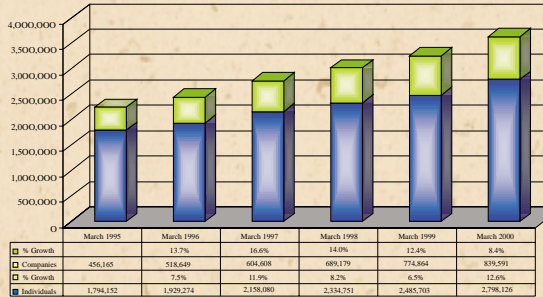
Broadening the Tax Base

Over the past financial year, the initiative to broaden the tax base yielded good results. The following are active cases registered of various taxes administered by SARS in the current and prior years.

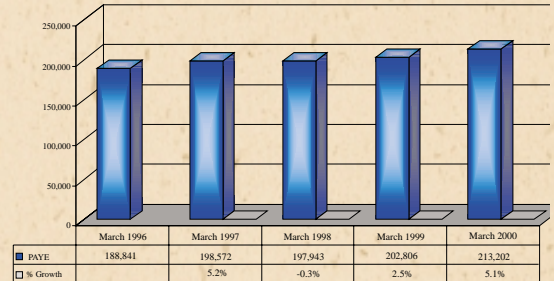




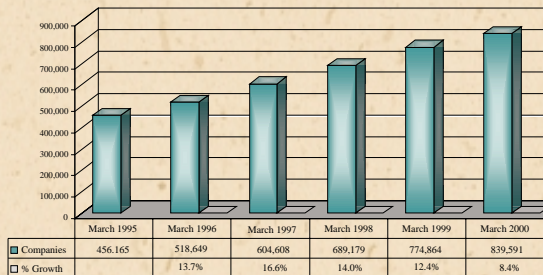
ACTIVE CASES ON REGISTER – INCOME TAX
MARCH 2000



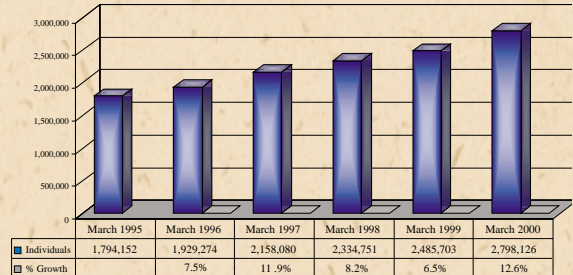
ACTIVE CASES ON REGISTER – PAYE
MARCH 2000



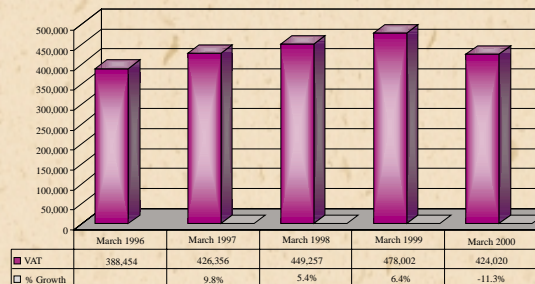
ACTIVE CASES ON REGISTER
INCOME TAX – COMPANIES
MARCH 2000



ACTIVE CASES ON REGISTER
INCOME TAX – INDIVIDUALS
MARCH 2000



ACTIVE CASES ON REGISTER –VAT
MARCH 2000



Debt Collections by SARS 1999-2000

During the financial year under review, SARS introduced the following initiatives in respect of the collection of outstanding debt:

- Specific management information on collections is now provided to offices and regions to give a consolidated view of their tax debt on all available systems. This included the first categorisation of debt on a national basis. Categories to identify risk types and accountabilities for VAT and PAYE systems have also been developed.
- A number of prosecution campaigns were launched to promote compliance. The February 2000 campaign delivered good results with 375 prosecutions.
- Old Mutual shares were taken as security in respect of outstanding tax obligations (on a similar basis as the SANLAM shares in November 1998.) In this manner, SARS collected approximately R500 million in outstanding taxes. On 31 March 2000, SARS was still holding 13 936 230 shares of Old Mutual and SANLAM to the value of R162 million as security.

- SARS initiated the Top 10 debtor's project at the beginning of the 1999 tax year. R1,2 billion was collected from such debtors during the 1999/2000 year.
- The Top 500 provisional tax follow-up was initiated towards the end of the tax year and resulted in more than R600 million being collected.
- A manual call centre was introduced in February 2000 to test it as a potential collection mechanism. The collections call centre rendered assistance to the Johannesburg and Pretoria offices specifically. Approximately 12 000 cases were handled during the period 23 February to 31 March 2000
- SARS put customs and revenue debt under the control of the collections division within Operations. In future, this division will address all risks with regard to deferments.

The following operational aspects have been identified for investigation as part of Operation's transformation process over the next 24 months:

- Introduction of an automated call centre;
- The co-sourcing of small debts;
- Devising a training manual for all collectors;
- Initiating the teaming concept and the transition to teams;
- Introduction of a separate debt management system;
- Moving to risk based operations and scoring specifically;
- Introducing new collections policies;
- Categorisation and codes to address additional business needs;
- Devising a new shortened collections process which will be supported by appropriate management information;
- Creating norms to ensure the equal and fair allocation of resources; and
- Introducing new targets and measurement of staff performance.

Payment Methods

It is anticipated that the improvement of methods of payment will contribute to the effective collection of taxes, thus enabling the revenue target of R212 billion for the 2000/2001 financial year to be met. Information regarding improved payment methods, such as the VAT brochure which was distributed to 552 000 taxpayers, is communicated to taxpayers on a regular basis. Statistics show that payments at banks and via the electronic medium increased substantially from R25 billion during the 1998/1999 financial year to R52 billion during 1999/2000.

Hotline

The introduction of the SARS hotline for internal and external reporting of fraud proved to be very successful. Since the implementation of this medium, 4 513 cases have been reported, generating an income to the amount of R25 million.





8.2 CUSTOMS

In the financial year under review, the Customs division achieved the following successes:

- Johannesburg International Airport: 2 297 cases involving different commodities were successfully concluded. This resulted in penalties of R3 518 168 being collected
- Port Elizabeth: Cases involving car audio equipment and quilt sets were successfully investigated. In addition five instances of the illegal manufacture of beer were dealt with
- Worcester: A case involving preservatives resulted in R427 037 being collected
- Cape Town: 112 cases were finalised and a total amount of R2 128 436 was collected

In the Free State and North West Province, which include Van Rooyens Gate, Maseru Bridge, Ficksburg Bridge, Caledonspoort, Ramatlabama, Skilpadshek, Kopfontein, Mmabatho and Bloemfontein, there were 282 detentions and 71 seizures over the past financial year. Penalties amounting to R896 446 were levied. 1 033 kg cannabis with a street value of R1 033 700 was seized.

The following steps aimed at improving the operational efficiency of the Customs division were taken over the past year:

- Improving its presence at non-commercial points to control and detect illegal movements;
- Placement of staff at Alexander Bay to assess traffic movements and enhance enforcement;
- Co-operating with local industries in order to use their premises and equipment to improve the quality of inspections country wide;
- Integrating Customs and Excise with the Mmabatho office of the Receiver of Revenue;
- Blitz operations aimed at targeting potential risk areas such as the evasion of duties, smuggling, round tripping and ghost exports;
- Export examinations; and
- Risk profiling and assessment training from UN.

All major airports are currently being upgraded to facilitate tax and trade more effectively.

An agreement with Portnet has been reached to build the requisite customs control and enforcement facilities at all international ports - Durban, Cape Town, Richards Bay, Mossel Bay, Port Elizabeth, East London and Saldanha. A scanner has already been installed at the Durban harbour to facilitate the search and risk profiling of containers.

SARS together with National Treasury has taken the lead in the SADC implementation policy and administration, which is important for industrial

and trade developments. This SADC Protocol is aimed on increased co-operation on implementation, by exchanging information, joint investigations and operational collaboration.

The South African government is currently negotiating with its partners in the Customs Union to revise a fair arrangement for the allocation of Customs and Excise duties within the union focusing on the allocation of excise duties and customs revenue. In addition, there are considerations around the development component, the administration of the pool and transitional arrangements.

Rules of Origin

The signing of asymmetrical reciprocal preferential trade agreements with the European Union (EU) and with the SADC heralded a new phase in the responsibilities of Customs Administration in South Africa, as the responsibility of administering the instrument of rules of origin is now placed on the export country.



A task team was initiated in May 1999 with SARS, Department of Trade and Industry (DTI) and National Department of Agriculture (NDA) as the major role players, which culminated in the implementation of Protocol 1 of the SA/EU Free Trade Agreement on 1 January 2000. The implementation of the SADC Protocol on Trade followed on 1 September 2000. Still on the agenda are the granting of approved exporter status in the SA/EU Free Trade Agreement and the effecting of Annexes in the SADC Protocol on Trade governing

simplification of documentation, Customs co-operation and transit facilitation.

The implementation saw legislated changes to the Customs and Excise Act, Rules and Procedures promulgated, as well as additions to:

- the electronic import and database systems;
- the linking of 21 offices to capture export declarations and certificates of origin in real time;
- the appointment of additional personnel; and
- the establishment of audit/investigation teams for this purpose in the three major centres, i.e. Durban, Johannesburg and Cape Town.

Development of the infrastructure took into account the administration of future agreements that will be entered into by South Africa.





8.3 COMPLIANCE

A risk-based Audit Approach

SARS is transforming its compliance function into an audit and investigative function. In the process, SARS is focusing on becoming results-driven and applying a risk-based integrated approach together with value-added consideration.

SARS is also building its training and audit capacity with the aim of providing ongoing professional training to its staff. An audit survey undertaken during the financial year under review provided better insight into the training needs and staffing requirements of the audit component. These needs will be addressed shortly.

In future, audits will be conducted on the basis of risk profiling. The SARS Audit Risk Analysis Program enables audit management to target high risk and high impact cases being developed for corporate taxes. It is envisaged that this will incorporate VAT, PAYE and Income Tax in the coming years.

A process of market segmentation will, in future, underpin the audit function. Audit resources will henceforth be focused on target markets identified by means of market segmentation. This approach is already evidenced in the SARS Corporate Tax Centre's specialisation in banks, life insurance companies and mining companies.

The future will also see an increased move towards integrated audits. To improve the utilisation of resources and to achieve efficiency gains, audits across all taxes will be undertaken simultaneously, with due cognisance taken of risks identified. In addition, such an approach will facilitate the multi-skilling of auditors. During the course of the past financial year, 171 auditors were involved in such integrated audits.

Special Investigations

Over the past financial year, the Special Investigations Division moved from a division that previously concentrated on establishing undeclared income to one that now concentrates on investigating revenue-related criminal offenses, which often result in criminal prosecutions. The financial aspect, although still important, has thus become a secondary driver. To this end, the division's investigators have begun formal training in the methodology of criminal investigations.

Statistics for 1999 – 2000 Special Investigations

Cases on Court Roll (1999-2000)	64
Convictions (1999-2000)	25
Appeals	1
Fines imposed	R1 314 000
Value of cases (i.e. amount of fraud)	R204 840 279
Amount of money recovered in court	R 75 307 794
Number of cases resulting in direct imprisonment	13
Years of direct imprisonment handed down in total	99 years

Overview of Tax Avoidance, Evasion and Criminality

Road Fuel Testing Unit

SARS' new fuel testing unit was introduced 1 March 2000 to police mixing of fuels by means of a chemical tracer in paraffin, which is easy to test for, but virtually impossible to remove as it cannot be filtered out or neutralised chemically.

The addition of this marker will result in benefits for the fiscus from the fuel industry, as adulteration will be subject to severe penalties and taxation at ten times the petrol rate if the traced product is detected.

Intelligence Unit

Initially, the manner in which cases were investigated by Special Investigations was unclear and unfocused, and case selection was done in an unstructured and uncoordinated way. Within the framework of the transformation process at SARS, it was decided to implement an intelligence-driven approach to the division. Strategic considerations required a highly focused overview of cases to be investigated by the division on a national basis. This led to the introduction of an intelligence unit within the Special Investigation division to give it the capacity to identify threats nationally, highlight trends and tendencies, and focus on matters identified as 'A' priority-rating in terms of national case selection criteria.

The intelligence unit will expand its service to include customs and audit, as well as grow its relationship with the private sector and other government departments.

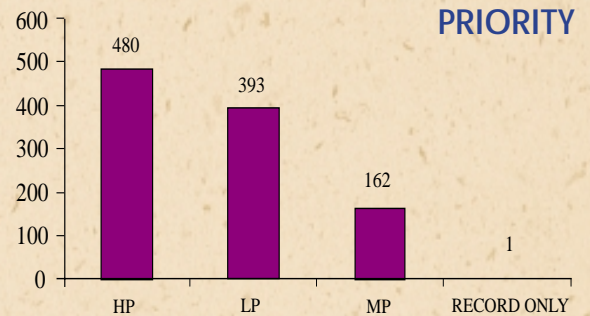
The Intelligence Unit conducted a Suspicious Activity Analysis of which 1 036 Suspicious Activity Reports were analysed. The results were as follows:

Of the **1 036** Suspicious Activity Reports analysed, 46% were assigned High Priority Status (HP), 37% Low Priority Status (LP), 15% Medium Priority Status (MP), and 0,09% Record Only Status. Suspicious Activity Reports are prioritised according to the SARS Special Investigations Interim Threat Analysis.



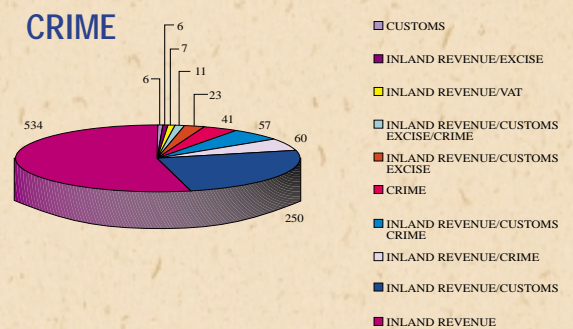


This table indicates the top ten Revenue Related Violations as indicated by the Suspicious Activity Reports. Of the 1 036 Suspicious Activity Reports analysed the top ten violations account for 995 (96%) of all violations reported.



Revenue related violation accounts for 534 (51%) of the violations. Customs related incidents are relatively low, this is mainly due to under reporting of suspicious activities in this sector. However, once the suspicious activity report has been introduced to customs officials the reporting of customs related suspicious activities would increase.

This table is a break down of the category Services sector of the industry. There are an alarming number of incidents under the Other (397) category of the services sector with no reference as to what that service indicate. This is a clear indication of inadequate categories on the current database for the classification of incidents per sector of industry.



Future Trends

- There will be a significant increase in the number of Suspicious Activity Reports captured on the database in the near future. This is mainly due to Suspicious Activity Reports received from the South African Revenue Service Hotline that has already been incorporated in the database from October 2000. Entries will average at 200 to 300 Suspicious Activity Report entries per month.
- When the Suspicious Activity Database is fully functional and available on the Internet to the public a further increase in the number of Suspicious Activity Reports will be experienced. No estimates can be given at this stage.

This analysis gives an indication of the information currently captured on the Suspicious Activity Prototype Database, and is more of a strategic nature. An in-depth analysis of the information would be required if operational and tactical planning is to be done. It is recommended that modus operandi category be identified with regard to specific sectors of industry that will enhance the analysis capacity and identifying of organised crime patterns.

Anti-Corruption Unit

The Anti-Corruption Unit was established in May 1999 with a mandate to investigate cases of internal fraud and corruption. The need for this unit

arose when it became clear that the majority of revenue fraud cases often involved SARS personnel, and that the South African Police Services resources were too limited to investigate such cases.

The unit receives information from the fraud hotline, the intelligence unit, from within SARS itself, as well as from law enforcement agencies. It has already achieved positive results in various interventions, such as at Johannesburg International Airport, Durban Customs, Beit Bridge, Klerksdorp and Johannesburg.

Security

Security audits at SARS offices were largely neglected in the past. To give security issues the requisite attention, a National Security Policy aimed at ensuring a standardised security service within SARS has been devised. The policy will be implemented on a national basis and will be controlled, monitored and administered by security staff from Head Office. The introduction and implementation of the policy will go hand in hand with a National Security Awareness Programme.

Security audits conducted by Head Office at branch level will ensure that the policy is adhered to at all times. To assist the security division in monitoring the security situation at branch offices, they will be required to complete security checklists on a six-monthly basis.

Investigations Training

Successful implementation of the new criminal investigative approach calls for additional training. To this end, an introductory Fraud Investigation Course was developed in collaboration with the South African Police Services Detective Academy and Justice Training Academy of the Reserve Bank. Training will commence with an overview course for Branch Managers. By mid 2001, all members of Special Investigations will have attended the introductory course.

8.4 LAW ADMINISTRATION

The transformation process at SARS called for a review of the fiscal legislative environment.

The Legislation Division collaborated with Department of Finance on the formulation and enactment of tax policy, more specifically to the taxation of foreign dividends, the change to a residence basis of taxation, the review of the tax treatment of public benefit organisations (PBOs) and the introduction of capital gains tax. The section prepared the Skills Development Act, 1999 and the Revenue Laws Amendment Act, 1999, as well as researched the impact of e-commerce on taxation. It also issued practice notes on the tax implications of





lending arrangements in respect of marketable securities and on transfer pricing. During the financial year under review, various initiatives were undertaken, inter alia:

- revising the tax treatment of intellectual property;
- counteracting unacceptable tax deferral opportunities;
- attacking the aggressive structuring of remuneration packages (salary sacrifice and non-cash benefits);
- developing a new database to record the tax-exempt status of PBOs;
- establishing appeal teams to deal more efficiently with objections and appeals;
- identifying deficiencies in the method of calculation of tax payable by long-term insurers; and
- closing loopholes in relation to the use of employment companies and the use of restraint of trade payments.

In an effort to ensure uniformity in the application of legislation on a national basis, 18 Circulars were issued to Receivers of Revenue. A number of Practice Notes were also issued.

Indirect Taxes introduced and implemented significant changes to the VAT legislation over the past financial year. The threshold for the compulsory VAT registration was increased to R300 000. The introduction of a minimum threshold of R20 000 contributed to reducing the number of VAT vendors on the VAT register by approximately 60 000 vendors, allowing resources to be concentrated on high value cases. More stringent registration requirements were instituted to combat VAT fraud. Technical and training assistance was provided to Namibia, Tanzania, Ghana, Sudan and Lesotho in regard to them implementing VAT.

A new, simplified VAT guide was published which, in conjunction with the VATNEWS publications, informs vendors of developments and issues regarding VAT.

Legal Service, which conducts litigation in the Special Income Tax Court on behalf of the Commissioner, was involved in the following matters during the past year:

• Appeals dismissed	22
• Appeals upheld	22
• Cases withdrawn by taxpayers	51
• Cases postponed	15
• Cases conceded by SARS	10
• Cases settled	14
• Referred back	5
TOTAL	<u>139</u>



During the past year the Section International Treaties concluded numerous Double Taxation Agreements (DTA's). The following DTA's were ratified in both countries and are, therefore, in force: Australia, Slovak Republic and Tunisia. The following DTA's were ratified by South Africa only: Greece and Luxembourg. Numerous DTA's are currently in the process of being negotiated. A customs agreement for the rendering

of mutual assistance between the USA and South Africa was negotiated and signed. A similar agreement between the Czech Republic and South Africa was negotiated but has not yet been signed.

8.5 TECHNOLOGY SERVICES

Changing certain of its business processes to improve efficiencies has put SARS in a situation where the existing business environment has to be maintained, while far-reaching changes are being implemented at the same time. This calls for ongoing support of the interaction between the present and the future within the appropriate framework.

As SARS must align its supporting infrastructure, the information and communication architecture, to its new business architecture, enterprise application integration will be one of the main supports, providing critical information for SARS' decision-makers to move forward.

To effectively support SARS' new business model, new building blocks for the technology environment will be devised. This will ensure that SARS is in a position to improve on service delivery and to integrate enterprise applications with external offerings.

Since SARS is becoming more process-orientated, the independent monolithic approach to supporting technology will not work in the future. A new paradigm regarding information, security and technology will be required to provide for:

- External focus and new client types;
- E-filing;
- External service providers;
- New technologies such as the Internet;
- Middle-ware; and
- E-Business / E-Commerce strategies.





SARS' current technology focuses on supporting business systems that are internally directed and rigid in design, all of which cannot support the future vision of SARS, or address the pressing problems SARS is experiencing.

Over the past financial year, SARS has dealt effectively with the issues of capacity building in the mainframe and networking environments, and now has both a world-class network infrastructure and processing centre.

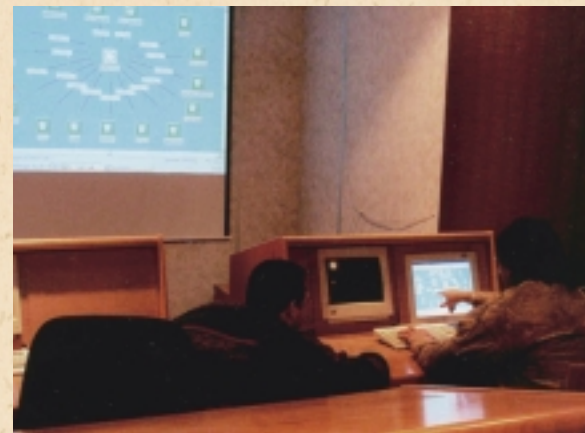
In future, investment will be directed towards SARS' new way of doing business. In this regard, SARS has already moved to a process design, which applies project management principles. This means that new applications will be developed to interface with different types of offerings available in the business world.

SARS is exploring the e-world by undertaking a series of "proof of concepts" with various potential partners. Such a "proof of concept" is currently underway for e-filing, e-acquisition and certain initiatives to base SARS' operations on electronic information. The aim is for SARS to collect 90% and more of all revenue by electronic means. This would indeed enable SARS' business to be totally information-driven, facilitating progression to an audit approach and to risk profiling.

The New Income Tax System (NITS)

The old Income Tax System was a batch system with many manual functions.

On Friday 17 December 1999, SARS successfully introduced NITS in all its Receiver offices. NITS is primarily an online system with very few batch processes, allowing SARS to process information much more rapidly than with the previous system.



It is believed that the introduction of NITS will bring about the following benefits in general:

- Create a more stable system and reduce down-time;
- Enhance taxpayer service through an improved revenue administration;
- Ensure increased system control;
- Provide much improved technology;
- Enable SARS to increase revenue collections; and
- Underpin the tax base broadening initiatives.

This new technology will lead to a new culture at SARS: paper-based manual processes will be eliminated as far as possible and substituted with automated processes.

On 30 March 2000, 228 applications for directives were electronically submitted. NITS successfully processed these without any human intervention. With the

electronic interface, a turnaround time of 24 hours is possible, as opposed to the 20 working days on the old system.

Considering the size and complexity of NITS, its implementation has been very successful. Future modules including STC and write-offs that are currently under development will be implemented in April 2001.

Notwithstanding these facts, a number of teething problems are being experienced, inconveniencing both taxpayers and SARS. These problems are being addressed as they occur.

Year 2000 Compliance

There were no Year 2000 compliance problems experienced in January 2000.

8.6 HUMAN RESOURCES

During the year under review, significant changes were witnessed in human resources structures, policies and practices at SARS, thus providing substantial impetus for the transformation process.

Human Resources led the process of change in SARS and was responsive to the urgent need to provide a new work context for new policies.

Grading and Remuneration Policy

The introduction of a new job evaluation system and remuneration policy provided the foundation for many of the other HR change interventions that followed. Benefits of the new system include a significant reduction in the number of grades at SARS, which improves flexibility, communication and employee participation.

Implementation of this project was flawed, not least because it was introduced with haste to enable SARS to pay competitive salaries, in order to attract and retain the necessary skills. A process allowing each employee to verify his/her job description and grade was recently completed, and is expected to enhance the legitimacy of the new system.

Career Management

Career ladders were developed for audit, administration, and account maintenance/recoveries personnel. Task teams working on career paths for special investigations, law administration and customs personnel will complete their work during 2000.

Performance Management

SARS required an interim bonus arrangement for the transition period between the former incentive bonus system and the new performance management system, commencing in the 2000/2001 financial year.





The aim of the 1999/2000 Performance Bonus scheme was to reward staff for the achievement of strategic and operational goals. It was designed to reward the way in which employees have worked through exceeding revenue targets and through the pursuit of quality in working practices.

A multi-disciplinary task team, including trade union representatives, developed a performance management system that is being implemented throughout SARS after extensive training of all staff. Each staff member's performance during the current year will be measured in terms of individual performance agreements concluded with each employee.

The scheme was designed to reward:

- a) All SARS employees – based on the revenue target being exceeded
- b) A maximum of 500 recipients categorised as follows:
 - Regional office reward – based on quality of working practices in one Regional office;
 - Branch office reward – based on quality of working practices in each region of the best;
 - Revenue office (in Gauteng region, 2 offices could be nominated);
 - Customs office;
 - Border post; and
 - Individual reward – based on performance excellence.

Training

A recently completed skills audit will provide a comprehensive profile of staff competencies and permit an assessment of the extent to which SARS' future needs can be met by existing personnel. A substantial mismatch is anticipated, which will oblige substantial retraining.

During 1999/2000, approximately 845 internal courses were attended by more than 11 000 participants at SARS. In addition, about 1 000 employees benefited from income tax training provided through the Rand Afrikaans University. Other key training initiatives included NITS and rules of origin courses. The International Labour Organisation (ILO) sponsored development of a labour relations training course for SARS, which will be presented to all line managers and shop stewards during 2000/2001.

An important focus of activity is the development of new audit capacity. A taxation auditor programme will be introduced later this year, which will feed into the



respected Master Taxation Auditor (MTA) programme offered at SARS. A partnership with the Association of Certified Chartered Accountants (ACCA) is also on the cards.

Planning has started on the establishment of a SARS college, which is likely to take the form of a virtual and a residential campus. Partners in this initiative will include Harvard University and the Open University, in addition to local tertiary institutions. In the longer term, SARS could consider providing customs and revenue administration courses to other countries in the region.

Finally, SARS has played a key role in the formation of a sector education and training authority (SETA) for the financial and accounting services industry.

Affirmative Action

Relatively low staff turnover-rate, coupled with efforts to freeze payroll costs, constrained SARS' ability to promote workforce representation. During 1999/2000, the total headcount declined by about 400. A moratorium was imposed on the appointment of administrative personnel to support the strategic shift to an audit focus.

The gender composition of the workforce remained unchanged (68% female and 32% male), while the percentage of black employees has increased by 5% to 37% since April 1998. Of the 314 new appointments made in 1999/2000, 53% were black and 50% female. Even though 77% of the managers appointed were black, only 22% of managers at SARS are African, Coloured or Indian. Also problematic is the low number of women in management ranks. A drive to remedy this situation is underway.

About 180 black employees participated in phase one of a programme to identify leadership potential in the organisation. Of these, 22 emerged as "high potentials". Fast-track career opportunities have been identified in consultation with them, and SARS has registered them for the Open University management programme, which culminates in an MBA qualification. About 25 white managers from the regional and branch offices are also enrolled for this course. Phase two of this programme starts soon.

Policy review

New policies were introduced to regulate recruitment, promotion, transfers, redeployment, grievance handling, disputes, car allowances, housing allowances, annual leave, maternity leave, study leave, gifts, etc. The merit assessment and notch/rank promotion systems and policies were abolished. The policy review process is continuing, and will include new approaches to sick leave/absence management, coupled with a rationalisation of health insurance options at SARS.





Labour relations

Relationships between management and the two trade unions recognised by SARS, namely PSA and NEHAWU, were put to the test by the change process. NEHAWU declared a dispute over the new grading and remuneration system, which was resolved amicably.

The year ended on a sound note with the conclusion of a wide-ranging recognition agreement with both unions, and a wage deal that has been well received.

The backlog of disciplinary cases was cleared, and the services of independent arbitrators were enlisted to expedite hearings. A zero tolerance approach to internal corruption and a more robust approach to misconduct in general saw 44 employees dismissed in the year under review, compared with 13 the previous year.

Redeployment

Human Resources managed the redeployment of employees from the Johannesburg and Germiston offices to staff the new Alberton office, and also facilitated the transfer of personnel from Bisho to East London as part of a downsizing exercise.

Human resources management information system

A new Human Resources management system was implemented (after some delays) in April 2000, and is operating successfully despite teething problems. The system facilitates the administration of new Human Resources policies and procedures, which could not be achieved with the public sector perusal system.

8.7 COMMUNICATIONS

The Communications division has seen significant changes during the year under review. The main thrust has been in re-focusing the division on its basic responsibility of facilitating communications within SARS. The activities below show that, despite severe understaffing, the division has performed relatively well in the last nine months. The past financial year has seen the division focus more on internal communications to facilitate a smooth transition and create a culture of openness and transparency.

- Developed a number of educational pieces on taxpayers' rights and obligations, which was published in the Financial Mail. In addition, this section successfully negotiated a column on tax in the Sowetan. The first article was published on October 12, 1999.
- Publicised the launch of the Johannesburg and Bellville Magistrates Tax Courts. The involvement included interviews with various media on radio and in newspapers.
- Redesigned the SARS official newsletter, "Revenews", as well as produced well over 60 "Newsflashes". The division also developed a new, weekly electronic newsletter for managers.

- Apart from managing a number of SARS campaigns, events and launches were very successful and has introduced a new culture of exhibiting at various shows around the country. In an event organised by SARS' Customs Transformation Programme, the section exhibited at the Johannesburg International Airport.



Activities

- Prosecution Campaigns
- Y2K
- Statistics
- Stakeholders Database
- Vuka Campaign
- Alberton Office
- Pretoria Show
- Trade Administration Workshop
- International Customs Symposium
- Live Video Broadcasts

8.8 INTERNAL AUDIT

SARS advisory council has ultimate responsibility for the system of internal controls within the organisation. This system is designed to provide reasonable, but not absolute, assurance that assets are safeguarded at appropriate cost, and that transactions are executed and recorded in compliance with SARS' policies and procedures.

Internal audit provides the audit committee and executive management with assurance that the internal controls are sufficient to manage the risks that could lead to the organisation not achieving its objectives.

Due to the size of SARS and Internal Audit's limited resources, a risk-based audit approach was followed to identify the audit areas for review. The most critical audit area identified that received our focused attention, was Y2K. Fortunately, SARS did not experience any major systems failures due to the Y2K issue. The remaining audits focussed mainly on Operations, the Financial Department and on the development of the New Income Tax System (NITS). Selected performance audits were also conducted and Control Self- Assessment workshops were held during the year.

Throughout, Internal Audit worked in close collaboration with the Auditor-General (AG) to ensure that work is not duplicated and in some cases, the AG relied on the work performed by Internal Audit (e.g. transfer of data to NITS).





Three Audit Committee meetings were held during the year whereby Internal Audit and the AG were fully supported and given the opportunity to highlight their findings.

The Institute of Internal Auditors (IIA) issued a new definition of Internal Auditing by which internal auditing is considered an objective assurance and consulting activity, independently managed, which adds value by evaluating and improving the effectiveness of the organisation's risk management, control and governance processes. In an initiative to comply to this new definition, Internal Audit performed, in addition to the planned audits, various ad hoc reviews as requested by management, as well as assisted management in a consulting capacity on various projects such as the mentioned Y2K project.

To improve on our services, EXCO approved the filling of 9 additional posts on 6 March 2000. These being:

- Six Financial Internal Auditors;
- Two Information Systems Internal Auditors; and
- A regional Internal Audit Manager.

New requirements such as the Public Finance Management Act (PFMA) and the latest Standards of Internal Auditing being developed by the IIA, will create new challenges for Internal Audit. Future initiatives will include the filling of the approved posts, providing ongoing training to the Internal Auditors and conducting audits in the Customs and Excise environment which has never been audited before. Further expansions to the division are also envisaged to improve on our services to the organisation.

8.9 FINANCE

The Finance Department has established a stronger platform to pursue its longer-term targets in respect of:

- Operational efficiencies;
- Cost reduction;
- Skills development;
- Knowledge management; and
- Accurate and timeous reporting to the fiscus.

A customer-focused and sustainable strategic plan for the Finance Division has been adopted. The objectives of this plan are threefold:

- Getting the basics right;
- Customer service; and
- Capacity building.

Implementation of the Public Finance Management Act (PFMA)

The PFMA is effective from 1 April 2000.

The Finance Division of SARS initiated a project, which ensured the finalisation of a PFMA implementation plan by the end of August 2000. This plan includes the assessment of existing policies, procedures and systems in all divisions and areas and the identification of changes and improvements to ensure compliance with the PFMA. At the same time, additional policies and procedures which are necessary to ensure compliance are being developed and implemented. Substantial changes to existing computer systems to support compliance with PFMA are anticipated. The implementation of written delegations of authority in all areas together with the monitoring mechanisms in all processes are included in the plan.

A PFMA implementation committee has been established and will be responsible for the successful implementation of the Act.

SARS will be fully compliant with the Public Finance Management Act by 1 April 2003.

Administered Revenue

Administered Revenue has initiated several projects during the year under review with the specific purpose of improving the integrity of financial information. New initiatives to administer the bank accounts have been implemented so as to improve the control over the bank function.

Tenders for the supply of an Integrated Financial Management System have been invited. The first phase of the implementation will focus on Revenue Accounting and it is foreseen that this phase will be implemented during 2001.

The benefits of the above implementation, together with the Siyakha programme, will contribute greatly towards the attainment of our objective to improve the skill levels of our people.

Own Accounts

An extensive action plan has been initiated to ensure that the accounting records are an accurate reflection of the transactions undertaken by SARS. This has included a complete revision of all-accounting policies and procedures within the division. It is anticipated that this review will place the expenditure accounting division in a strong position to meet its commitments in terms of control and reporting.

A critical aspect of this is the ability to meet the requisite reporting deadlines, but also to facilitate reporting in accordance with GAAP.

Even though the organisation has made vast inroads in many areas there is still a long road that lies ahead. SARS is however confident and motivated to continue in addressing all the challenges awaiting the organisation.





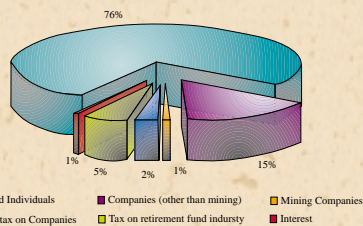
9. FINANCIAL REVIEW

The following Income Statement illustrates the national government net revenue collected and accounted for on the **cash basis** of accounting during the year under review.

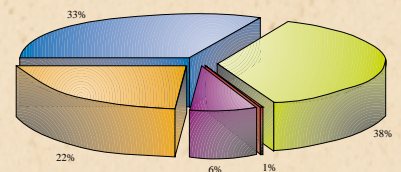
NATIONAL GOVERNMENT REVENUE

	1999-00 R'000	1998-99 R'000
REVENUE	198,067,985	184,127,231
Taxation	199,979,467	184,630,551
Income tax	116,503,604	108,383,395
Value-added tax/Sales tax	48,330,217	43,989,785
Fuel levy	14,289,798	13,640,009
Excise duties	9,470,400	8,571,750
Customs duties	6,517,798	5,985,664
Other taxes	4,854,302	4,040,920
Ordinary levy	12,979	17,405
Import surcharge	369	1,623
Non- Taxation	5,285,816	5,073,395
Departmental receipts	4,918,808	4,967,863
Miscellaneous revenue	246,924	47,817
Mining lease and ownership	120,084	57,715
Less: Payment in terms of Customs Union Agreements	7,197,298	5,576,715

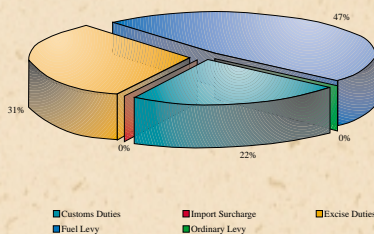
REVENUE: INCOME TAX



REVENUE: OTHER TAXES



REVENUE CUSTOMS & EXCISE



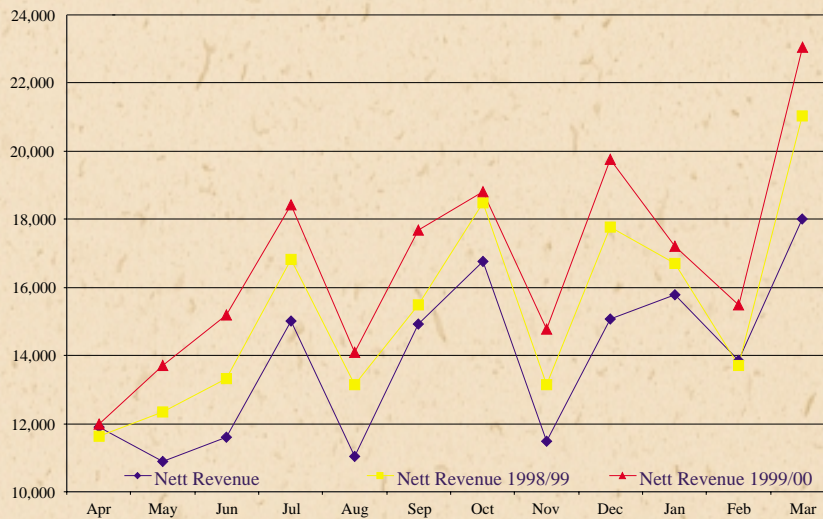
■ Persons and Individuals
 ■ Companies (other than mining)
 ■ Mining Companies
■ Secondary tax on Companies
 ■ Tax on retirement fund industry
 ■ Interest

■ Donations Tax
 ■ Estate Duty
 ■ Marketable Securities Tax
■ Stamp Duties and Fees
 ■ Transfer Duties
 ■ Levy on Financial Services

■ Customs Duties
 ■ Import Surcharge
 ■ Excise Duties
■ Fuel Levy
 ■ Ordinary Levy

SARS - ACTUAL CASH RECEIVED
1997/98 - 1998/99 - 1999/00

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Nett Revenue 1997/98	11,892	10,890	11,602	15,022	11,039	14,911	16,777	11,482	15,074	15,791	13,848	18,022
Nett Revenue 1998/99	11,626	12,356	13,333	16,830	13,153	15,492	18,495	13,136	17,786	16,705	13,695	21,031
Nett Revenue 1999/00	11,974	13,717	15,199	18,433	14,087	17,679	18,811	14,775	19,766	17,217	15,499	23,062



MAIN BUDGET FRAMEWORK

	1996-97	1997-98	1998-99	1999-00
R billion				
Tax Revenue (actual cash received)	147,052	165,335	184,422	200,221
Tax Revenue as % of GDP	23.2	23.6	24.4	24.5
Other receipts & repayments	3,667	3,304	3,966	3,90
Less: SACU transfers	(4,363)	(5,237)	(5,122)	(7,197)
RDP fund grants (1)	139	169	456	-
Total revenue	146,495	163,571	183,722	196,955
Total revenue as % of GDP	23.1	23.4	24.3	24.1

Notes

1) From 1999-00 foreign grants received in the RDP Fund for government projects do not flow through the National Revenue Fund



AGGREGATED FINANCIAL STATEMENTS

SOUTH AFRICAN REVENUE SERVICE - AGGREGATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2000

	2000 R'000	1999 R'000
REVENUE COLLECTIONS	202,085,978	200,480,955
Taxation	195,015,783	195,153,022
Non-taxation	7,070,195	5,327,933
COLLECTION EXPENSES	7,287,506	3,241,187
Doubtful debts	6,673,862	2,620,686
Write-off of receivables	597,500	611,498
Theft and losses	16,144	9,003
NET REVENUE COLLECTIONS	194,798,472	197,239,768
REVENUE - OWN ACCOUNTS	1,793,417	1,827,381
Grant received	1,787,118	1,820,596
Interest received	3,660	4,132
Other revenue	2,639	2,653
EXPENSES	1,906,308	1,663,213
Administrative expenditure	316,798	185,119
Depreciation and amortisation	85,473	52,415
Finance charges	2,721	760
Miscellaneous expenditure	2,573	10,543
Personnel expenditure	1,177,726	1,212,502
Professional and special services	266,148	191,672
Research and development costs written off	-	10,202
Provision raised for unidentified items	54,869	-
Net revenues for the year	194,685,581	197,403,936
Paid to the National Revenue Fund	194,798,472	197,239,768
Funds remitted to the National Revenue Fund	197,645,992	182,823,629
Balance of funds to be remitted upon collection	(2,847,520)	14,416,139
(Decrease)/Increase in surplus	(112,891)	164,168
Accumulated surplus b/fwd	136,003	(28,165)
Accumulated surplus c/fwd	23,112	136,003
Collection costs - cents per rand collected	0.98	0.84
Fixed assets to revenues	0.097%	0.114%
Revenue collections per capita - R 000	17,589	15,779
Collection costs per capita - R000	172	133
Personnel costs per capita - R000	106	97

SOUTH AFRICAN REVENUE SERVICE - AGGREGATED BALANCE SHEET AS AT 31 MARCH 2000

	2000 R'000	1999 R'000
ASSETS		
Non-current assets	188,262	224,772
Property, plant and equipment		
Current assets	33,999,202	33,775,611
Inventories	-	2,563
Accounts receivable	32,693,484	33,290,248
Other assets	1,123,688	482,800
Cash and cash equivalents	182,030	-
Total assets	34,187,464	34,000,383
CAPITAL RESERVES AND LIABILITIES		
Capital and reserves	103,778	216,669
Asset revaluation reserve	48,302	48,302
Capital reserve on establishment	32,364	32,364
Accumulated surplus	23,112	136,003
Accumulated balances due to National Revenue Fund upon collection	22,469,045	25,316,565
Current liabilities	11,614,641	8,467,149
Trade and other payables	277,111	419,537
Taxation refunds due	11,337,530	7,855,530
Bank overdraft	-	192,082
Total capital, reserves and liabilities	34,187,464	34,000,383

AGGREGATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2000

CASH FLOWS FROM OPERATING ACTIVITIES

Net deficit for the year	(112,891)
Net revenue collections	194,798,472
Adjustments for:	
Depreciation	85,473
Interest received	(3,660)
Finance charges	2,721
Payments per customs union agreements	7,197,298
Operating surplus before working capital changes	201,967,413
Working capital changes	3,298,013
Decrease in accounts receivable	596,764
Decrease in inventories	2,563
Decrease in accounts payable	(142,426)
Increase in taxation refunds due	3,482,000
Increase in other assets	(640,888)
Cash generated from operations	205,265,426
Interest received	3,660
Finance charges	(2,721)
Payments per customs union agreements	(7,197,298)
Payments to National Revenue Fund	(197,645,992)
Net cash inflow from operating activities	423,075
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(48,963)
Increase in cash and cash equivalents	374,112
Cash and cash equivalents at beginning of year	(192,082)
Cash and cash equivalents at end of year	182,030





10. THE YEAR AHEAD

The 2000/2001 tax year will without any doubt prove to be a taxing but extremely exciting period for SARS. The successful implementation of a number of initiatives lies ahead of the organisation, amongst them being:

RESIDENCE BASED TAXATION

Draft legislation will be presented informally to the Portfolio Committee on Finance, and will be made available on the National Treasury and SARS Online web sites. It is anticipated that hearings will be held before the Portfolio Committee on Finance in October 2000.

CAPITAL GAINS TAX

SARS and the National Treasury will continue to consult with various industries and their regulators. Consultations between SARS and the National Treasury will commence on policy aspects of the capital gains system. Visits by foreign experts on capital gains tax have been scheduled for middle to late October 2000.

COLLECTIONS PLAN AND TRAINING OF COLLECTORS

SARS will be implementing the Debt Management System in October 2000. SARS intends to code the whole of the debtors' book above the suppression level by end of February 2001.

Training of all collectors will be rolled out. Some 35 trainers will conduct training nationally. More than 400 collectors will be trained.

SKILLS DEVELOPMENT LEVY

Skills Development Levy will be fully implemented before the end of December 2000.

UIF

The UIF Collection and Administration System will be developed during the course of the financial year.

AIR PASSENGER TAX

The Air Passenger Tax System will be developed and implemented this financial year.

EMPLOYMENT COMPANIES

Employers will be notified regarding the management of PAYE for Employment Companies and Trusts. Changes to the NITS to accommodate this legislation will be developed.

FOREIGN DIVIDENDS

Retirement funds will be notified regarding the treatment of Foreign Dividends and credits and Retirement Fund Tax (RFT). Provisional Tax returns will be amended accordingly. Changes to NITS to accommodate this legislation will be developed.

SMALL BUSINESS CORPORATIONS

Changes to the NITS to accommodate this legislation will be specified and developed.

BULK DATA CAPTURE SYSTEM

The Bulk Data Capturing System will be implemented in the ten largest offices. This should substantially reduce capturing errors on Income Tax returns.

NITS

Priority attention is given to developing STC (Secondary Tax on Companies) functionality and amending the system for the budget initiatives. The online interface to the Credit Bureau will be implemented, as well as the interface to SACRO (South African Company Registration Office).

AUDIT CHANGES

Four pilot audit centres will be established - Durban, Randburg, Bellville and Germiston. An audit training program will be undertaken with the assistance of the Internal Revenue Service (US).

UPDATE ON FINANCE DIVISION

A project will be launched during the year to address the Auditor-General's concerns regarding the SARS own accounts

FIXED ASSET MANAGEMENT PROJECT

This project with a milestone of 31 January 2001 will be launched this year.

PFMA

The Finance Division of SARS will initiate a project during April 2000, which will ensure the finalisation of a PFMA implementation plan by the end of August 2000.





TECHNOLOGY SERVICES DIVISION (TSD)

The TSD environment will be restructured into three distinct sections under a new General Manager. The three sections are Application Solution Delivery, Service Delivery and Shared Services. Some of the major issues at TSD are the re-alignment of the Information and Communication Architecture with the strategy that SARS business views will follow in support of the new Business initiatives.

RESTRUCTURING WITHIN THE OPERATIONAL ENVIRONMENT

Restructuring within the operational environment will be initiated during the next two months and will focus on the Top 10 offices after which the other branches will be addressed.

The focus is on addressing the following

- Back logs;
- Getting the basics right; and
- A more representative structure.

CUSTOMS CHANGES

A Strategic Framework will be drafted for a new approach to customs. Customs Control in conjunction with Department of Trade and Industry will be implemented.

SARS will enter negotiations with Portnet on the port community system and joint venture on acquisition and operation of scanners.

A programme to organise funding for Customs operations via the United States Agency for International Development (USAID) and partnerships with private sector, e.g. with the Customs Law Enforcement Task Group, will be deployed.

THE WAR ROOM CONCEPT

As a result of various issues backlogs were created in the following areas:

- Return control;
- Check return;
- Bulk data capturing; and
- Pre-assessment.

The major problem was found to be in the Johannesburg & Pretoria office and due to limited funds it was decided to concentrate on these two areas. An office (War Room) will be established in Pretoria where these backlogs are addressed in a "production line" manner. It is envisaged that the backlogs will be erased within six months. Temporary & permanent staff will be utilised in this exercise. By removing the backlogs out of the office we will enable offices to keep current work up to date.

11. FINANCIAL STATEMENTS – ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2000

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Statement of change in net assets for the year ended 31 March 2000	57
Statement of financial position as at 31 March 2000	57
Cash flow statement for the year ended 31 March 2000	58
Notes to the annual financial statements	59

The annual financial statements set out on pages 56 to 67 were approved and signed by me in my capacity as Commissioner for SARS on 30 August 2000.



Pravin J Gordhan
Commissioner for SARS
PRETORIA, 30/08/2000





11.1 REPORT OF THE AUDITOR-GENERAL

THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2000

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 - 2.2 Nature and scope
 - 2.2.1 Financial audit
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 - 2.3.1 Financial audit
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 - 2.4 Audit opinion
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 - 2.4.2 Compliance audit
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 - 3.2 Waiving of interest and penalties
 - 3.3 Securities
 - 3.4 Performance audit
4. APPRECIATION

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 56 to 67, for the year ended 31 March 2000, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Introduction

The South African Revenue Service changed its basis of accounting with effect from the year ended 31 March 1998 to comply with generally accepted accounting practice (GAAP) in terms of Section 29(3)(a) of the SARS Act.

There are no definitive applicable GAAP rules either locally or internationally with regard to matters such as revenue recognition for a state revenue collection agency. The Commissioner has advised that SARS will comply progressively with GAAP as the relevant standards are developed. SARS has in the meantime developed accounting policies that satisfy the overall guidance with regard, inter alia, to the accrual of income, assets and liabilities.

To support these disclosures the underlying core (tax) systems need further adjustment and upgrading. The current shortcomings in the systems raised audit concerns both from a financial and compliance perspective that are set out in paragraph 2.3.1 (b) hereunder.

The Commissioner has indicated that active steps are being taken to address this, which include the following:

- The implementation of the Public Finance Management Act (PFMA) according to a structured implementation plan.
- A project for the identification and clearance of historical differences between the core systems and the accounting records and implementation of controls to avoid recurrence.
- Appointment of specialists in various areas of operations to specifically address issues highlighted in this report.
- Implementation of the debt management system by October 2000.
- Implementation of the revenue accounting system by April 2001 with subsequent integration to the core tax systems.





- Restructure of the top 10 branch offices and align them with new business requirements that include audit, collections and service improvements.
- Transformation of SARS to a process driven organisation with effective and transparent systems.

I believe that improved disclosure, accompanied by stable accounting systems will benefit both SARS and the users of the information and look forward to monitoring the progress made in this regard in the future.

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

2.2 Nature and scope

2.2.1 Financial audit

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

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

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

2.2.2 Compliance audit

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

2.3 Qualification

2.3.1 Financial audit

In order to recognise the difficulties experienced by SARS arising from the requirement to comply with GAAP this section of the report has been categorised into two sections viz. Cash and Accrual basis of accounting. It distinguishes those matters that would be reported irrespective of the accounting basis used, some of which have been longstanding, from those that result from the GAAP requirement.



(a) Cash basis of accounting

(i) Reconciliations

- (1) The requirements of section 22 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) have not been totally adhered to as proper books and records were not fully maintained. These records which are prepared on a cash basis have demonstrated shortcomings, examples of which are incomplete and inadequate record keeping in respect of customs and excise debtors and the lack of proper reconciliations between the cash accounting records and the cash collections on the core systems.

As a result there was an unexplained difference of R417 million in net collections between the income tax system (IT) and the cash accounting records where the accounting records reflected R417 million less than the IT system. In respect of the previous financial period the accounting records reflected R413 million greater net collections than the IT system.

SARS has already implemented an action plan to ensure that cash collections on the core systems reconcile with the cash accounting records.

- (2) The amount reflected on the bank reconciliation in respect of outstanding data cheques (income tax refunds) could not be verified, as a complete listing could not be provided.
- (3) Outstanding debits and credits on the bank reconciliation were not timeously resolved.

(ii) Income tax refunds

A complete listing of the details of refunds made to taxpayers could not be provided.

(iii) Exceptions generated by NITS

The new income tax system (NITS), which was partially implemented in December 1999, facilitates the capturing and assessment of returns on a face value basis. It is estimated that approximately 80% of assessments are issued without any human intervention. Therefore, the emphasis has shifted towards auditing returns after assessments have been raised. As a result of the automation of the assessment process, it is envisaged that approximately 70% of the current assessors within SARS will be utilised in processes such as auditing.

While the benefit of the reduced processing time of assessments is recognised, it may have a significant impact on the capacity of the



branch office to perform audits of the required quality. At the time of carrying out our tests a large number of these assessments had not yet been audited by the respective branch offices. In instances where the audits had been completed, deductions were not accompanied by the required supporting schedules, which could raise uncertainty on the completeness and accuracy of income tax levied.

The Commissioner has indicated that a manual risk profiling system is now being put in place to scan returns and allocate cases for audit and an automated version is being developed.

(iv) Interest on outstanding STC debtors

Prior to the implementation of NITS, interest on STC debtors had been incorrectly calculated. Interest on overdue STC balances has not been calculated since the introduction of NITS in December 1999. The STC module is still in the process of development and is due for completion by the end of December 2000.

(v) Interest on outstanding customs and excise debtors

Interest on outstanding debts is raised manually. Incorrect rates were used, while in certain cases interest was not raised at all. The Commissioner indicated that the new debt management system due for implementation in October 2000 would alleviate this problem.

(b) Accrual basis of accounting

(i) Customs and excise debtors

Certain offices did not provide detailed listings of outstanding amounts in respect of customs and excise duties, fuel levies and dishonoured cheques. As a result there is doubt whether receivables in respect of customs and excise and fuel levy reflected in the annual financial statements are complete. The Commissioner has advised that the current programme of getting the basics right (including the appointment of suitably qualified management and general staff, and the re-institution of general office inspections) and the implementation of a significantly improved debt management system mentioned in paragraph 2.3.1 (a)(v) above, will resolve this problem.

(ii) STC debtors and creditors

As mentioned in the paragraph 2.3.1(a)(iv) the STC module is still in the process of development. Consequently, STC debtors and creditors could not be identified at 31 March 2000.

(iii) PAYE and VAT accruals

Accruals for PAYE and VAT are in respect of returns and assessments received on or after 1 April 2000 for previous tax periods. This is impacted

by payments received prior to 1 April 2000 in respect of the said returns and assessments.

Accruals were not adjusted for payments received before 1 April 2000, which could not be linked to returns or assessments received or issued on or after 1 April 2000.

(iv) Tax on retirement funds

Accurate detailed listings substantiating amounts included in the financial statements in respect of tax on retirement funds creditors amounting to R915 million and debtors accruals could not be provided.

2.3.2 Compliance audit

(a) Tax administration

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

(b) Computer audit

The following computer audits were completed during the period February 2000 to August 2000 and possible areas for improvement were in each instance brought to the attention of the Commissioner. In his comments, the Commissioner referred to various corrective steps, the effectiveness of which will be evaluated in due course.

(i) Follow-up computer audit of the general controls within the Value-Added Tax, Pay-As-You-Earn and New Income Tax Systems

The key findings arising from the audit indicated that although some controls were in place, adequate general control measures had not been implemented throughout (23 of the 42 weaknesses previously identified had been adequately addressed). Various weaknesses with regard to organisational structure and operating procedures, logical and physical access, programmers' access to the production environment, segregation of duties between programmers and database administrators and program change control were identified. Furthermore, an updated information system inventory was still not in place, as equipment to the value of approximately R18 million was not included.





(ii) Follow-up computer audit of the application controls within the Pay-As-You-Earn System

The key findings arising from the audit indicated that although good progress had been made to address weaknesses previously identified (25 of the 31 weaknesses previously identified had been adequately addressed), adequate application control measures had still not been implemented throughout. The most significant control weaknesses identified related to journals that were still not reviewed or authorised timeously and inadequate logical access controls.

(iii) Follow-up computer audit of the general controls within the Customs Automated Processing of Entries System

The key findings arising from the audit indicated that adequate general control measures had still not been implemented throughout (14 of the 36 weaknesses previously identified had been adequately addressed). Various weaknesses with regard to policies, procedures and standards, logical security and program change control were identified. The Commissioner advised that the new Cargo Management System, scheduled for implementation in the next eighteen months, also involves a comprehensive review of the system and the elimination of shortcomings.

(iv) Computer audit of the application controls within the Passenger System

The key findings arising from the audit indicated that, in general, adequate computerised controls existed. However, user controls within the system were found to be inadequate and open to abuse. The most significant weaknesses related to updated exchange rates not always being used when assessing passengers, shared passwords, users' access to functions not necessary to perform their duties and a lack of formal user registration procedures.

2.4 Audit opinion

2.4.1 Disclaimer of financial audit opinion

Because of the significance of the matters referred to in paragraph 2.3.1, I am not able to express an opinion on the financial statements.

2.4.2 Compliance audit

Based on the audit work performed, except for the matters included in paragraph 2.3.2, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters and taxation, has occurred.

3. EMPHASIS OF MATTER

Attention is drawn to the following matters:

3.1 Interest on overpayment of provisional tax payments

The Tax on Retirement Funds Act, 1996 (Act No. 38 of 1996) does not make provision for the payment of interest on the overpayment of provisional tax by taxpayers. The Commissioner has indicated that National Treasury has as a priority project for their policy section, the harmonisation of the act with the Income Tax Act, 1962 (Act No. 58 of 1962).

3.2 Waiving of interest and penalties

Although the Commissioner can at his discretion waive interest and penalties based on fully motivated reasons, it is submitted that interest should not be waived where the funds rightfully belong to SARS, as the taxpayer had use of the funds in the interim period.

3.3 Securities

Confirmations received from financial institutions indicated that various bonds held by SARS appear to be invalid.

3.4 Performance audit

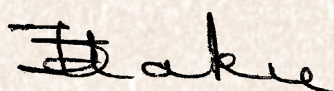
Performance audits on value-added tax and customs duty were concluded at the South African Revenue Service during the year under review. The findings of these performance audits are included in the Report of the Auditor-General on Performance Audits completed at the South African Revenue Service during 1999 (RP 96/2000).

3.5 Annual report

The audit of the annual financial statements of SARS Administered Revenue was completed on 29 September 2000. It is a requirement of section 29(2) of the SARS Act that this report be included in the annual report of the Commissioner, the final version of which was submitted to me on 19 December 2000.

4. APPRECIATION

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



S A FAKIE
Auditor-General



11.2 ADMINISTERED REVENUE

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2000

	Notes	1999-00 R'000	1998-99 R'000
REVENUES		202,085,978	200,480,955
Taxation		202,213,081	200,729,737
Income tax	2	114,990,135	119,530,967
Value-added tax/Sales tax	3	50,271,997	48,772,815
Fuel levy		15,431,494	13,649,552
Excise duties		10,287,908	8,567,887
Customs duties		6,355,375	6,086,285
Other taxes	4	4,863,007	4,099,912
Ordinary levy		12,979	17,405
Import surcharge		186	4,914
Non-taxation		7,070,195	5,327,933
Departmental receipts	5	5,474,443	5,031,649
Miscellaneous revenue		1,474,249	238,590
Mining leases and ownership		121,503	57,694
Less:			
Payments in terms of Custom Union Agreements	6	7,197,298	5,576,715
EXPENSES		7,287,506	3,241,187
Doubtful debts	7	6,673,862	2,620,686
Write-off of receivables	8	597,500	611,498
Theft and losses		16,144	9,003
SURPLUS FOR THE YEAR		194,798,472	197,239,768



**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF CHANGE IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2000**

	Notes	R'000
ACCUMULATED ADMINISTERED ASSETS		
Balance at 31 March 1998		10,900,426
Net gains and losses not recognised in the statement of financial performance		
Transfer to the National Revenue Fund		(183,023,464)
Surplus for the year (as previously recognised)		197,239,768
Balance at 31 March 1999		25,116,730
Correction of fundamental error	9	199,835
Restated balance at 31 March 1999		25,316,565
Net gains and losses not recognised in the statement of financial performance		
Transfer to the National Revenue Fund		(197,645,992)
Surplus for the year		194,798,472
Balance at 31 March 2000		22,469,045

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2000**

	Notes	1999-00 R'000	1998-99 R'000
ASSETS			
Current assets			
Receivables	10	32,530,291	32,879,869
Other assets	11	1,123,688	482,800
Cash and cash equivalents	12	320,834	49,154
Total Assets		33,974,813	33,411,823
NET ASSETS AND LIABILITIES			
Net Assets			
Accumulated administered assets		22,469,045	25,316,565
Current liabilities			
Taxation refunds due	13	11,337,530	7,855,530
Bank		142,626	236,124
Other liabilities	14	25,612	3,604
Total Net Assets and Liabilities		33,974,813	33,411,823

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2000**

	Notes	1999-00 R'000	1998-99 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from operating activities	15	205,208,468	189,688,951
Taxation		200,307,839	184,721,088
Non - taxation		4,900,629	4,967,863
Cash transferred		(204,843,290)	(188,600,179)
Payments in respect of Customs Union Agreements		(7,197,298)	(5,576,715)
Cash to National Revenue Fund		(197,645,992)	(183,023,464)
Net cash inflow/(outflow) from operating activities		365,178	1,088,772
Cash and cash equivalents at beginning of period		(186,970)	(1,275,742)
Cash and cash equivalents at end of period	16	178,208	(186,970)

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000

1 ACCOUNTING POLICIES

1.1 Objectives

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

1.2 Basis of accounting

The financial statements are required by section 29 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act) and is a general purpose financial report. Although SARS is required to comply with GAAP in terms of the SARS Act, there are no definitive norms and standards for compiling these annual financial statements. However, SARS will comply progressively with GAAP as the relevant standards are developed.

These financial statements have been prepared on a going-concern basis and the policies have been applied consistently throughout the period.

1.3 The reporting entity - Own and administered accounts

The reporting activity of SARS has been divided into Administered and Own accounts. Administered accounts, which are the subject of these financial statements, are those assets, liabilities, revenue and expenses which are controlled by the Government and managed by SARS on behalf of the Government.

1.4 The reporting entity - Items brought to account

Those assets and liabilities, revenues and expenses that are controlled by SARS have been brought to account as administered items in the Administered Revenue annual financial statements. Revenue and expenses for which SARS acts as a conduit for the National Revenue Fund or the various Provincial Revenue Funds have not been included.

Estimated revenue is not disclosed as part of the annual financial statements because the estimates are prepared in accordance with the cash basis of accounting while the annual financial statements are prepared in accordance with the accrual basis.

1.5 Revenue recognition

1.5.1 Definition of revenue

Revenues and related assets are considered to arise when the Government, through the application of legislation by SARS to taxable





SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000

and other relevant activities, gains control of the future economic benefits that flow from taxes and other statutory charges.

1.5.2 Recognition of revenue

The SARS administered revenues of the Government are recognised on the accrual basis when:

- the taxpayer or the taxpayer group can be identified in a reliable manner;
- an amount of tax or other statutory charge is due by the taxpayer or taxpayer group under legislative provisions; and
- the amount of the tax or statutory charge due by the taxpayer or the taxpayer group can be reliably measured, and it is probable that the amount will be collected.

Where the above conditions are met, an amount of tax or statutory charge is recognised as revenue for accrual reporting purposes when, inter alia:

- SARS raises a debt relevant to the reporting period on a taxpayer's account, via remittance received, assessment or reliable estimation process; or
- a taxpayer notifies SARS of a self-assessed debt relevant to the reporting period, which SARS then raises on the taxpayer account; or
- a reliable estimate of taxes, due by registered taxpayers, can be made, but debits have not been raised on individual taxpayers accounts.

The amount of revenue recognised takes account of legislative steps, discretions to be exercised and any refunds and/or credit amendments to which taxpayers may become entitled. Subsequent write-offs are treated as an expense.

The conditions and recognition events essentially mean that the majority of revenue is recognised either when the debt is raised on a taxpayer account, or when a reliable estimate of future assessments, relevant to the reporting period can be determined, and not when payments are received.

South Africa is the administrator of the Southern African Customs Union Agreements. All revenue in respect of the Common Customs Union is, therefore, included as revenue in the statement of financial performance, while the payments to the other member countries are disclosed separately.

Where revenue is recognised under these principles, but not paid, it is included in receivables.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000

1.5.3 Application of the revenue recognition policy for the principal revenue lines is as follows:

Income tax

PAYE	-	the period in respect of which a return is due by a registered employer
Provisional tax	-	the period in respect of which a provisional tax return is due by a registered taxpayer
Assessed tax	-	when raised
Additional tax	-	when raised
Penalties	-	when raised
Interest	-	when raised

Value-added tax

Value-added tax Including bi-monthly returns	-	The period in respect of which a return is due by a registered vendor
Penalties	-	when raised
Interest	-	when raised

Marketable securities tax	-	the period in respect of which a MST return is due by a registered stockbroker
----------------------------------	---	--

Stamp duties and fees	-	the period in respect of which a return is due by an agent or on the sale of stamps
------------------------------	---	---

Transfer duty	-	on transfer of property
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Customs duty	-	when raised in South Africa or received in the Common Customs Pool
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Excise duty	-	when raised in South Africa or received in the Common Customs Pool
--------------------	---	--

Fuel levy	-	the period in respect of which a return is due by an agent
------------------	---	--

1.6 Revenue not recognised - Tax evasion

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





SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000

1.7 Receivables

The basis for recognition of receivables is set out under 1.5 (1.5.2) above - 'Recognition of revenue'

1.8 Reductions in receivables

Provisions to reduce gross receivables are raised for any doubtful debts and any probable credit amendments based on a review of outstanding accounts as at year end, involving examinations of large debts and disputed amounts and having regard to historic collection patterns.

Actual amounts of write-off of bad debt are charged to expenses, as is the movement in the provision for doubtful debt.

1.9 Cash and cash equivalents

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

1.10 Liabilities in respect of provisional payments

No general provision is made in the financial statements for the liability arising from provisional payments that might be refundable to taxpayers.

Due to the nature of provisional payments, liabilities in respect of income tax that might be refundable to taxpayers can only be established on assessment, which takes place well into the next financial year.

SARS is of the opinion that to raise a general provision would not be representative of the position at the accounting date.

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000**

	1999-00	1998-99
	R'000	R'000
2. Income tax	114,990,135	119,530,967
Persons and individuals	88,148,134	87,575,648
Companies	17,216,495	23,191,624
Tax on retirement fund industry	5,546,776	5,098,877
Secondary tax on companies	2,639,184	1,941,613
Interest and penalties	1,439,546	1,723,205
3. Value-added tax/Sales tax	50,271,997	48,772,815
Value-added tax	50,273,756	48,783,322
Sales tax	(1,759)	(10,507)
4. Other taxes	4,863,007	4,099,912
Transfer duties	1,824,359	1,565,400
Stamp duties and fees	1,618,647	1,489,783
Marketable securities tax	1,090,404	721,070
Estate duty	299,238	311,958
Donations tax	17,189	12,477
Levy on financial services	12,980	1,907
Other	190	(2,683)
5. Departmental receipts	5,474,443	5,031,649
Departmental activities	4,897,924	4,579,284
Interest and dividends	444,275	79,394
Recovery of loans and advances	74,088	110,347
Levies	58,156	262,624
6. Payments in terms of Customs Union Agreements		
Contributions to the Common Customs Pool	15,998,197	14,573,832
Botswana	294,076	159,378
Namibia	289,230	202,885
Lesotho	84,480	62,965
Swaziland	43,533	44,487
Sub-total	711,319	469,715
South Africa	15,286,878	14,104,117



**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000**

	1999-00	1998-99
	R'000	R'000
Received from the Common Customs Pool	15,998,197	14,573,832
Botswana	2,551,972	1,662,284
Namibia	2,240,743	1,805,222
Swaziland	1,221,480	1,075,819
Lesotho	1,183,103	1,033,390
Sub-total	7,197,298	5,576,715
South Africa	8,800,899	8,997,117

7. Doubtful debts	6,673,862	2,620,686
Provision for doubtful debts	6,673,862	2,620,686

8. Write-off of receivables	597,500	611,498
Income tax - individuals	81,048	63,824
Income tax - individuals - accruals for March*	-	28,292
Income tax - companies	23,335	28,982
Income tax - companies - accruals for March*	-	4,172
Value-added tax/Sales tax	362,193	312,391
Value-added tax/Sales tax - accruals for March*	-	61,781
Interest and penalties	128,238	84,139
Interest and penalties - accruals for March*	-	27,250
Excise duties	-	258
Customs duty	1,934	130
Other taxes	520	152
Import surcharge	191	92
Miscellaneous revenue	41	35

* Refer note 19.

9. Fundamental error		
Correction of fundamental error in respect of contributions to the Common Customs Pool omitted from revenue and receivables during the 1998-99 financial year	199,835	-

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000**

	1999-00	1998-99
	R'000	R'000
10. Receivables	32,530,291	32,879,869
Income tax	20,365,372	18,252,496
Individuals - revenue raised	6,273,949	5,473,675
Individuals - revenue accrued*	6,516,464	6,918,012
Companies	3,627,208	3,305,836
Interest and penalties	3,232,922	2,554,973
Retirement Fund Tax*	625,793	-
Retirement Fund Tax - interest*	6,598	-
Retirement Fund Tax - penalties*	82,438	-
Value-added tax	17,181,384	16,046,608
Value-added tax - revenue raised	7,792,505	7,418,525
Value-added tax - revenue accrued*	7,275,817	7,009,637
Interest and penalties	2,107,993	1,608,806
Sales tax	5,069	9,640
Miscellaneous revenue	1,433,000	205,713
Fuel levy - revenue raised	-	17,545
Fuel levy - revenue accrued*	1,159,241	-
Excise duties	986,178	167,634
Customs duties	529,930	685,339
Other taxes	164,317	120,848
Import surcharge	3,974	4,348
Mining leases	1,443	24
	41,824,839	35,500,555
Provision for doubtful debts	9,294,548	2,620,686

* Refer note 19.

11. Other assets	1,123,688	482,800
Other	93,799	9,481
State departments - revenue raised	548,197	466,467
State departments - revenue accrued*	473,740	-
Provincial administrations	7,952	6,852
Opening balance	6,852	236
Amounts paid over to provincial administrations	37,350	47,193
Amounts received on behalf of the provincial administrations	(36,250)	(40,577)
Regional Services Councils	-	-
Amounts received	86	(115)
Amounts paid	(86)	115

* Refer note 19.



**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000**

	1999-00	1998-99
	R'000	R'000
12. Cash and cash equivalents	320,834	49,154
Paymaster-General	224,511	37,649
Bank	37,268	(4,728)
Main control account		
- Regional offices	34,763	4,354
Receiver of Revenue (cash on hand)	24,292	11,879
13. Taxation refunds due	11,337,530	7,855,530
Income tax	6,100,083	2,314,748
Companies	3,175,080	1,864,598
Persons and individuals	1,928,143	509,936
Interest and penalties	81,629	(59,786)
Retirement Fund Tax*	915,231	-
Value-added tax	5,090,277	5,438,882
Value-added tax - refunds raised	1,984,346	2,337,191
Value-added tax - refunds accrued*	3,123,068	3,114,718
Interest and penalties	(17,137)	(13,027)
Other taxes	137,183	101,900
Customs duties	8,951	-
Excise duties	1,036	-
* Refer note 19.		
14. Other liabilities	25,612	3,604
Other	25,612	3,604
15. Reconciliation of surplus for the year to total cash received		
Surplus for the year	194,798,472	197,239,768
Adjusted for Payments in terms of Customs Union Agreements	7,197,298	5,576,715
Increase/(Decrease) in taxation refunds due	3,482,000	3,425,798
(Increase)/Decrease in receivables	349,578	(16,483,555)
Increase/(Decrease) in other liabilities	22,008	(10,235)
(Increase)/Decrease in other assets	(640,888)	(59,540)
Total cash received	205,208,468	189,688,951

**SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 MARCH 2000**

	1999-00	1998-99
	R'000	R'000
16. Cash and cash equivalents	178,208	(186,970)
Cash and cash equivalents	320,834	49,154
Bank	(142,626)	(236,124)

17. Sureties

- (i) Lien - Sanlam shares
7 405 430 Sanlam shares with a market value of R61 539 124 are held in respect of amounts owing by 9 287 taxpayers as at 31 March 2000.
- (ii) Lien - Old Mutual shares
6 530 800 Old Mutual shares with a market value of R100 900 860 are held in respect of amounts owing by 8 356 taxpayers as at 31 March 2000.
- (iii) Guarantees
Guarantees issued by financial institutions in favour of SARS amounting to R2 059 738 282 are held as security for various taxes and duties payable.

18. Audit fees

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

19. Ongoing reporting improvements

Ongoing improvements to the reporting of financial information are being made as and when the South African Revenue Service systems are upgraded to supply this information. This results in the prior period figures not being entirely comparable. The effect of these improvements can be seen in notes 8, 10, 11 and 13.

20. Contingent liabilities

Duty Credit Certificate permits are earned on exports made by the importer for which a Duty Credit Certificate permit is issued based on certain percentages of export made which then the Duty Credit Certificates may be utilised for importation of textile materials on which the Customs duty is then rebated. The outstanding balance of R88 million represents Customs Duty not yet claimed by means of the Duty Credit Certificates.

No amount was available for Import Rebate Credit Certificates in respect of the Motor Industry Development Program due to the system not being able to produce a reliable figure at year-end.





12. FINANCIAL STATEMENTS – OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000

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The annual financial statements set out on pages 73 to 85 were approved and signed by me in my capacity as Commissioner for SARS on 23 November 2000.

Pravin J Gordhan
Commissioner for SARS
PRETORIA, 23/11/2000

12.1 REPORT OF THE AUDITOR-GENERAL

THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000

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3. APPRECIATION





1. AUDIT ASSIGNMENT

The financial statements as set out on pages 73 to 85, for the year ended 31 March 2000, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) (SARS Act). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Nature and scope

2.1.1 Financial audit

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

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

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

2.1.2 Compliance audit

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

2.2 Qualification

2.2.1 Financial audit

(a) Scope limitations: Fixed assets

The scope of the audit work was limited, because it was not possible to verify the total value of acquisitions and existence of assets. This limitation also impacted on the amounts related to fixed assets which are included in the income statement. Consequently, I did not obtain all the information or explanations considered necessary to satisfy myself as to the reasonable presentation of the financial information. Expenditure on in-house developed software that has an enduring value for SARS has not been capitalised due to the inability of the accounting system and records to accurately identify expenditure incurred in the development

of this software and the shortcomings in the internal controls referred to in paragraph 2.2.1(c). The Commissioner has indicated in note 8 to the annual financial statements that a comprehensive fixed asset management project to address these issues has been initiated. The project is expected to be completed by January 2001.

(b) Expenditure

As a result of the extent and nature of the transactions, set out in note 9 of the annual financial statements, that have been transferred to the suspense account and subsequently provided for in the income statement, I was not able to express an opinion as to whether the financial results fairly reflect the results of the operations for the year under review.

There is also uncertainty regarding the extent to which the reconciling items and the R46 million difference on the bank reconciliation roll-back, will impact on the suspense account and the results of operations of the financial years ending 31 March 2000 and 31 March 2001.

(c) Internal control

In addition to the matter referred to in 2.2.1(b) the following shortcomings which are indicative of a serious breakdown of financial and internal control systems were also brought to the attention of the accounting officer:

- Source documents totalling at least R18 million could not be made available for audit purposes after a reasonable period of time was allowed. This may result in the misstatement of financial information.
- Personnel had not received adequate training in the accounting software in use, which compromised the accurate capturing and allocation of financial data on the accounting system.
- The nature and level of skills other than management skills required in the Finance department had not been fully addressed.
- The organisation structure did not support a sound internal control environment, as there were several changes in key financial management positions during the year under review and changes in assigned duties.
- Timely accurate management reports were not always available.
- Control activities regarding fixed assets, bank and cash balances, trade creditors and personnel expenditure were compromised to the extent that regular monitoring was not possible.

These shortcomings have the effect that the provisions of section 22(a) of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) have not been met.

The Commissioner has subsequently begun to address these issues by way of a structured action plan. He has indicated that to date:

- The significant data integrity issues have been resolved;
- For the first time, proper reconciliations have been prepared as at





31 March 2000 for major suppliers;

- For the first time a proper bank reconciliation has been prepared as at July 2000 and rolled back to 31 March 2000;
- Financial policies and procedures are being formulated and documented. Formal implementation will commence as each module has been developed and approved;
- Staff have been provided with on-the-job training where feasible and will receive additional formal training i.e. through workshops; and
- Consultants are providing assistance in the development of an efficient Head Office Finance Division personnel structure.

2.2.2 Compliance audit

(a) Unauthorised expenditure: R6 211 000

Expenditure that must be regarded as unauthorised expenditure, in terms of section 33(1)(d) of the Exchequer Act, 1975 (Act No. 66 of 1975), was incurred during the period under review. The amount was spent without prior approval and the South African Revenue Service Tender Board was not prepared to condone the expenditure. In accordance with the classifications of the Public Finance Management Act, 1996 (Act No. 1 of 1996) this expenditure would have been classified as irregular.

(b) Value-added tax

The requirements of sections 55 and 17 of the Value-added Tax Act, 1991 (Act No. 89 of 1991) were contravened due to the fact that certain source documents to verify the input claim could not be provided and Input VAT was claimed on some motor cars.

2.3 Audit opinion

2.3.1 Disclaimer of financial audit opinion

Because of the significance of the matters referred to in paragraph 2.2.1, I am not able to express an opinion on the financial statements.

2.3.2 Compliance audit

Based on the audit work performed, except for the matters included in paragraph 2.2.2, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

3. APPRECIATION

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

S A FAKIE
Auditor-General

12.2 OWN ACCOUNTS

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2000

	Notes	2000 R'000	1999 R'000
REVENUE		1,793,417	1,827,381
Grant received	3	1,787,118	1,820,596
Interest received		3,660	4,132
Other revenue		2,639	2,653
EXPENSES		1,906,308	1,663,213
Administrative expenditure		316,798	185,119
Depreciation and amortisation		85,473	52,415
Finance charges		2,721	760
Miscellaneous expenditure		2,573	10,543
Personnel expenditure		1,177,726	1,212,502
Professional and special services	4	266,148	191,672
Research and development costs written off		-	10,202
Provision raised for unidentified items	9	54,869	-
Net (deficit) surplus for the year		(112,891)	164,168



**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
FOR THE YEAR ENDED 31 MARCH 2000**

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus (deficit) R'000	Total R'000
Balance at 31 March 1998	48,639	-	(28,165)	20,474
(Surplus of assets over liabilities transferred from Government on 1 October 1997)	-	32,364	-	32,364
Revaluation decrease	(337)	-	-	(337)
Net surplus for the year	-	-	164,168	164,168
Balance at 31 March 1999	48,302	32,364	136,003	216,669
Net deficit for the year	-	-	(112,891)	(112,891)
Balance at 31 March 2000	48,302	32,364	23,112	103,778

**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
BALANCE SHEET AS AT 31 MARCH 2000**

	Notes	2000 R'000	1999 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	188,262	224,772
Current assets		183,159	412,942
Inventories		-	2,563
Accounts receivable	9	179,337	410,379
Cash and cash equivalents		3,822	-
Total assets		371,421	637,714
CAPITAL RESERVES AND LIABILITIES			
Capital and reserves			
Asset revaluation reserve		48,302	48,302
Capital reserve on establishment		32,364	32,364
Accumulated surplus		23,112	136,003
Current liabilities		267,643	421,045
Trade and other payables	10	267,643	415,933
Bank overdraft		-	5,112
Total capital, reserves and liabilities		371,421	637,714



**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2000**

	2000 R'000	1999 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (deficit) surplus for the year	(112,891)	164,168
Adjustments for:		
Depreciation	85,473	52,415
Interest received	(3,660)	(4,132)
Finance charges	2,721	760
Operating (deficit) surplus before working capital changes	(28,357)	213,211
Working capital changes	85,315	(5,431)
Decrease (Increase) in accounts receivable	231,042	(229,264)
Decrease (Increase) in inventories	2,563	(1,323)
(Decrease) Increase in accounts payable	(148,290)	187,118
Funds surrendered to Department of Finance	-	38,038
Cash generated from operations	56,958	207,780
Interest received	3,660	4,132
Finance charges	(2,721)	(760)
Surrender of surplus funds	-	(22,446)
Surrender of unauthorised expenditure	-	(15,592)
Net cash inflow from operating activities	57,897	173,114
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(48,963)	(193,956)
NET CASH OUTFLOWS FROM FINANCING ACTIVITIES		
Decrease in capital and reserves	-	(337)
Increase (decrease) in cash and cash equivalents	8,934	(21,179)
Cash and cash equivalents at beginning of year	(5,112)	16,067
Cash and cash equivalents at end of year	3,822	(5,112)

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

1. BACKGROUND

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

2. STATEMENT OF ACCOUNTING POLICIES

2.1 Presentation of annual financial statements

The annual financial statements have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipment. The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice, except for research and development costs as referred to in note 2.7. The principal accounting policies are set out below and are consistent with previous years. The presentation of the annual financial statements for the current and prior periods has been modified in order to comply with the requirements of AC 101 (Revised) - Presentation of financial statements.

2.2 Revenue recognition


SARS's chief source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenues. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for when they accrue.

Uncommitted funds are surrendered to the National Revenue Fund in terms of section 27 of the Act. Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable.

2.3 Donations

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





SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

2.4 Retirement benefit plans

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

Refer to note 13 for details regarding the actuarial valuation method used to determine the fund's financial health.

2.5 Property, plant and equipment

2.5.1 Property, plant and equipment acquired on 1 October 1997 from Government are stated at valuation as at 31 March 1998. Subsequent additions to furniture, fittings, office equipment, software and security equipment are capitalised at cost. The transferred assets were valued on the following basis:

2.5.1.1 Motor vehicles were valued at the trade value of each vehicle per the Auto Dealers Guide for March 1998;

2.5.1.2 Furniture and fittings and office equipment were counted at 31 March 1998, and valued at R1 per item counted. Assets purchased after 1 October 1997 were capitalised at cost.

2.5.2 The surplus or deficit arising on the revaluation of assets, was transferred to the asset revaluation reserve, which is regarded as capital. On disposal of an asset, any applicable portion of the surplus or deficit is transferred from this reserve.

2.5.3 From 1 April 1998, depreciation is charged to write off the cost of property, plant and equipment over their useful lives, using the straight line method, on the following basis:

Furniture and fittings	10 years
In-house developed software	5 years
Mainframe computers	5 years
Motor vehicles	5 years
Office and security equipment	5 years
Personal computers and printers	3 years
Proprietary software	2 years

2.6 Inventories

Inventories comprise consumable stores and are valued at the lower of the weighted average cost or estimated net realisable value. Provision is made for obsolete items.

2.7 Research and development

Research and development costs are recognised as an expense in the period in which they are incurred. Expenditure on development is charged to income in the year in which it is incurred, except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future operational activity. Such development costs are capitalised as

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

an intangible asset and amortised on a straight line basis over the life of the project from the date of commencement of operation, which is on average 5 years.

Due to the lack of distinction between research and development costs for this year, SARS was unable to quantify the value of in-house development software to be capitalised in terms of AC122 of Statements of Generally Accepted Accounting Practice and all costs were written off.

2.8 Financial assets and liabilities

Financial assets

SARS's principal financial assets are cash and cash equivalents, which comprise of bank balances and cash on hand, and receivables.

Receivables are stated at their nominal value as reduced by appropriate provisions for estimated irrecoverable amounts.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include trade and other payables.

Trade and other payables are stated at their nominal value.

3. GRANT RECEIVED

	2000	1999
	R'000	R'000
Government grant received	2,032,262	1,519,174
Accrued in 1999 in respect of incentive bonuses	(301,422)	301,422
Accrued in 2000 in respect of incentive bonuses	56,278	-
	1,787,118	1,820,596

4. PROFESSIONAL AND SPECIAL SERVICES

Professional and special services of R266 148 000 (1999: R191 672 000) include costs for audit services provided by the Auditor-General.

11,605	15,204
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5. UNAUTHORISED EXPENDITURE

The following amounts, included in the annual financial statements, constitute unauthorised expenditure in terms of section 33 of the Exchequer Act (Act No. 66 of 1975).



**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000**

	2000	1999
	R'000	R'000
a) Appointment of consultants	2,743	
b) Appointment of consulting firm - Lee Morall	42	
c) Landelani recruitment project	1,879	
d) Income Tax Training - RAU	1,096	
e) Masterskill courseware	38	
f) Printing of forms	67	
g) Strategic planning project	68	
h) Security at SARS, Alberton	29	
i) Drug test kits	117	
j) PABX	34	
k) Purchase of photocopy paper	26	
l) Extension of sanitary contract	17	
m) Purchase of stationery	50	
o) Property expenditure	5	
Total	6,211	5,496

6. DONATIONS

SARS received the following donated benefits in kind:

a) US Agency for International Development	2,445
Funds utilised for:	
Study visits and IRS training courses	
SARS National Management Forum	
Short term advisors	
Commercial fraud and white collar crime seminars	
b) USAID	1,041
Funds utilised for:	
Short term advisors/consultants	
c) H M Customs & Excise	499
Funds utilised for:	
Funding of HR consultant	
d) Swedish International Development Agency	2,500
Funds utilised for:	
Short term advisors	
Licence fees - SESAM & SARAP software	
Video Projector	
SESAM audit support system maintenance	
Study visits	
e) German Foundation for International Development	317
Funds utilised for:	
Study visits	
Training on audit techniques	



SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

	2000	1999
	R'000	R'000
f) French Trade Commission in S.A.	72	
Funds utilised for:		
Study visit to French Customs training school		
French Customs training expert to SARS		
Customs school expert to SARS		
g) World Customs Organisation	50	
Funds utilised for:		
Trainer for course on Customs fraud		
h) Australian Agency for International Development	27	
Funds utilised for:		
CATA Management Development Programme		
Total	<u>6,951</u>	<u>19,565</u>

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

7. TAX STATUS

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

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

8. PROPERTY, PLANT AND EQUIPMENT

A comprehensive fixed asset management project has been initiated to count, value, record and manage all fixed assets, and to identify assets under finance leases. This project will be completed by January 2001, at which time the necessary adjustments to the fixed assets revaluation and related accounts will be effected. As a result, the information below was obtained from the general ledger. The project will also include the identification of operating leases.

Due to the lack of distinction between research and development costs for this year, SARS was unable to quantify the value of in-house development software to be capitalised in terms of AC122 of Statements of Generally Accepted Accounting Practice and all costs were written off.



**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000**

	Computer equipment	Computer software	Furniture fittings & office equipment	Security equipment	Motor vehicles	Total
	R'000	R'000	R'000	R'000	R'000	R'000
For the year ended 31 March 2000						
At cost or valuation						
Opening balance - 31 March 1999	199,870	20,454	31,999	64	24,800	277,187
Additions	35,332	7,398	2,240	924	3,069	48,963
Closing balance - 31 March 2000	<u>235,202</u>	<u>27,852</u>	<u>34,239</u>	<u>988</u>	<u>27,869</u>	<u>326,150</u>
Accumulated depreciation						
Opening balance - 31 March 1999	41,743	3,409	2,530	8	4,725	52,415
Charge for the year	63,355	12,076	4,670	105	5,267	85,473
Closing balance - 31 March 2000	<u>105,098</u>	<u>15,485</u>	<u>7,200</u>	<u>113</u>	<u>9,992</u>	<u>137,888</u>
Carrying amount - 31 March 2000	<u>130,104</u>	<u>12,367</u>	<u>27,039</u>	<u>875</u>	<u>17,877</u>	<u>188,262</u>
For the year ended 31 March 1999						
At cost or valuation						
Opening balance - 31 March 1998	58,316	-	2,450	12	22,453	83,231
Additions	141,554	20,454	29,549	52	2,347	193,956
Closing balance - 31 March 1999	<u>199,870</u>	<u>20,454</u>	<u>31,999</u>	<u>64</u>	<u>24,800</u>	<u>277,187</u>
Accumulated depreciation						
Charge for the year	41,743	3,409	2,530	8	4,725	52,415
Closing balance - 31 March 1999	<u>41,743</u>	<u>3,409</u>	<u>2,530</u>	<u>8</u>	<u>4,725</u>	<u>52,415</u>
Carrying amount - 31 March 1999	<u>158,127</u>	<u>17,045</u>	<u>29,469</u>	<u>56</u>	<u>20,075</u>	<u>224,772</u>

9. ACCOUNTS RECEIVABLE

	2000	1999
	R'000	R'000
Staff accounts receivable	5,611	7,238
Less provisions	<u>2,395</u>	<u>-</u>
	<u>3,216</u>	<u>7,238</u>
External accounts receivable	1,508	-
Less provisions	<u>84</u>	<u>-</u>
	<u>1,424</u>	<u>-</u>
Suspense account		
Unidentified items	-	74,786
Bank timing differences	46,868	-
Unsubstantiated items	<u>8,001</u>	<u>-</u>
	<u>54,869</u>	<u>74,786</u>
Less provision	<u>54,869</u>	<u>-</u>
	<u>-</u>	<u>74,786</u>

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

Certain difficulties in reconciling the general ledger accounts to third party documentation arose as a result of the initial set-up of the general ledger software. In order to address these difficulties and to establish reliable records for future accounting periods a data integrity exercise was undertaken. This involved *inter alia*:

- reversing all the journal transactions that were posted to control accounts from the inception of the general ledger in October 1997;
- identifying which of those journals were valid transactions and re-instating them, with the other leg of the transaction being posted to the suspense account; and
- clearing and reconciling balance sheet accounts, so that only clearly identifiable assets, liabilities or equity accounts were reflected, the unknown amounts being transferred to the suspense account.

These actions resulted in a net debit balance of R8 million on the suspense account.

A bank reconciliation was performed at 24 July 2000. This reconciliation contained approximately 15 000 reconciling items. In rolling back the reconciliation to 31 March 2000 in order to obtain an accurate bank balance to be reported, a further difference of R46 million between the calculated bank balance and the bank statement balance arose. A significant number of payments were processed by the bank before 31 March 2000, but had only been captured in SARS's records as payments in the following financial year. This amount of R46 million was reflected in the suspense account at 31 March 2000 and has been added to the net debit balance of R8 million.

When the bank account reconciliation is reperformed from autonomy to 31 March 2000, the reconciling items of R46 million at 31 March 2000 will be separately identifiable. An exercise to achieve this has been mobilised.

The full amount of R54 million has been provided for on the face of the income statement as unidentified amounts.

	2000 R'000	1999 R'000
Government departments	174,368	309,821
Prepayments	-	18,205
Refundable deposits	329	329
	<u>174,697</u>	<u>328,355</u>
Total	<u>179,337</u>	<u>410,379</u>



**SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000**

10. TRADE AND OTHER PAYABLES

	2000	1999
	R'000	R'000
Trade accounts payable	38,553	108,556
Provision for incentive bonus	56,278	301,422
Provision for leave pay (refer to note 11)	4,581	-
Accruals for salary related expenses	133,140	-
Other accruals	32,156	415
VAT payable	2,935	5,540
Total	<u>267,643</u>	<u>415,933</u>

11. CONTINGENT LIABILITIES

Guarantees issued to various financial institutions in respect of housing loans granted to employees	17,502	15,536
Accumulated leave prior to 31 December 1998	80,104	80,104
	<u>97,606</u>	<u>95,640</u>

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

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provision for such accumulated leave has been made and disclosed as part of note 10.

12. CAPITAL COMMITMENTS

Commitments for the acquisition of property, plant and equipment: - contracted for but not provided in the financial statements	<u>1,015</u>	<u>-</u>
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13. RETIREMENT BENEFIT PLANS

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

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



SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2000

The results were as follows:

Fair value of planned assets	R156,8 million
Funding level	96.5%
Including pension increments	
Shortfall	R5,2 million
Including pension increments	

Actuarial present value of planned assets R143,8 million

Actuarial assumptions:

- 1) Reasonable demographic assumptions regarding resignation, mortality, ill-health and retirement.
- 2) Financial assumptions regarding future salary increases until retirement, and pension increases after retirement; namely,
 - i) A long-term rate of 10% per annum;
 - ii) A long-term salary inflation rate of 11% per annum. This is in addition to a promotional scale;
 - iii) Pension increases are provided for at a rate of 7,5% per annum; and
 - iv) Rate of interest of 14% per annum to discount the assets and liabilities.

The financial health of the Fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

Pension fund contributions

(included in personnel expenditure)	<u>106,468</u>	<u>110,063</u>
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SARS' responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made to the pension fund on behalf of its employees.

Approximately 10 890 of the 11 075 SARS employees contribute to this pension fund.

14. POST-RETIREMENT MEDICAL BENEFITS

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





13. SARS CONTACT DETAILS

HEAD OFFICE

SARS, Private Bag X923, Pretoria 0001

Lehae La SARS, 299 Bronkhorst Street
Nieuw Muckleneuk, Pretoria 0181

Tel: (012) 422 4000

Fax: (012) 422 6847

EXTERNAL FRAUD HOTLINE NUMBER:

0800 00 28 70

INTERNAL FRAUD HOTLINE NUMBER

0800 00 19 60

WESTERN CAPE AND NORTHERN CAPE

Beaufort West – Receiver of Revenue

Church Street, Private Bag X548, Beaufort West, 6970
Tel (023) 414-3235/3235 Fax (023) 414-4264

Bellville – Receiver of Revenue

AJ West Street, Private Bag X11, Bellville, 7535
Tel (021) 959-9101 Fax (021) 959-9704

Cape Town – Regional office

ABSA Building, 6th Floor
132 Adderley Street, P.O.Box 3926, Cape Town, 8000
Tel (021) 481-6100 Fax (021) 481-6161

Cape Town – Receiver of Revenue

90 Plein street, P.O. Box 657, Cape Town, 8000
Tel (021) 460-2003 Fax (021) 465-4389

Cape Town – Customs and Excise

Customs House, 9 Table Bay Boulevard, Private Bag X9046,
Cape Town, 8000, Tel (021) 401-8500 Fax (021) 421-6263

Cape Town International Airport

P.O. Box 9046, Cape Town, 8000,
Tel (021) 934-0221 Fax (021) 934-2355

George – Receiver of Revenue

cor. 93 York & St. John Streets, Private Bag X6585, George,
6530, Tel (044) 874-7420 Fax (044) 874-0327

Mossel Bay – Customs and Excise

67A Bland Street, P.O. Box 19, Mossel Bay, 6500
Tel (0446) 91-1065 Fax (0446) 91-1961

Nakop / Naroegas - Border Post

P.O. Box 1801, Upington, 8800, Tel (054) 331-1850

Oudtshoorn – Customs and Excise

Allied Building, 4th Floor, Church Street, P.O. Box 309,
Oudtshoorn, 6620, Tel (044) 272-2681 Fax (044) 272-7210

Paarl – Receiver of Revenue

Rhoba Building, 19/20 Market Street, Private Bag X5004,
Paarl, 7622, Tel (021) 872-2181 Fax (021) 872-1662

Paarl – Customs and Excise

Monte Rose Building, 276 Main Street, P.O. Box 41, Paarl,
7622, Tel (021) 872-7654/5 Fax (021) 872-6626

Robertson – Customs and Excise

48 Church Street, P.O. Box 38, Robertson, 6705
Tel (02362) 63-040 Fax (02362) 64-363

Saldanha Bay – Customs and Excise

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

Stellenbosch – Customs and Excise

Valenda Building, cor. Piet Retief and Skool Streets
P.O. Box 41, Stellenbosch, 7599

Tel (021) 887-3036 Fax (021) 887-5924

Upington – Customs and Excise

Ancorley Building, 1st Floor, Schott Street,
P.O. Box 1801, Upington, 8800

Tel (054) 331-1210 Fax (054) 332-3501

Violsdrif - Border Post

Violsdrif, Springbok, 8250
Tel (027) 761-8707 Fax (027) 761-8977

Vredendal – Customs and Excise

Reubini Building, cor. Church & Matzikkamma Streets
P.O. Box 10, Vredendal, 8160

Tel (0271) 33-009 Fax (0271) 33-009

Worcester – Receiver of Revenue

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

Worcester – Customs and Excise

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

GAUTENG

Alberton – Receiver of Revenue

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

Benoni – Receiver of Revenue

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

Boksburg – Receiver of Revenue

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

Brakpan – Receiver of Revenue

106 Kings Way Avenue, P.O. Box 40, Brakpan, 1540
Tel (011) 740-0251 Fax (011) 740-1175

Germiston – Receiver of Revenue

Outeniqua Building, cor. Victoria & Plantation Streets
P.O. Box 166, Germiston, 1400

Tel (011) 873-2468 Fax (011) 873-3916/8583

Germiston – Customs and Excise

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

Johannesburg – Regional Office

Momentum Office Park, Ashwood Place, Building no. 16
140 Western Service Road, Woodmead.

Tel (011) 449-5838 Fax: (011) 326-2139

Johannesburg – Receiver of Revenue

New Government Building, 4 Rissik Street, P.O. Box 1051,
Johannesburg, 2000, Tel (011) 314-8619 Fax (011) 836-695

Johannesburg – Customs and Excise

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

Johannesburg International Airport

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

Krugersdorp – Receiver of Revenue

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

Lanseria International Airport

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

Nigel – Receiver of Revenue

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

Pretoria – Receiver of Revenue

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

Pretoria – Head Office

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

Pretoria – Customs and Excise

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

Randfontein – Receiver of Revenue

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

Roodepoot – Receiver of Revenue

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

Sandton – Corporate Tax Centre

Block G, Hurlingham Office Park, cor. William Nicol Drive & Republic Road, Private Bag X9901, Sandton, 2146
Tel (011) 789-6336 Fax (011) 789-8129

Springs – Receiver of Revenue

56 Fourth Street, P.O. Box 106, Springs, 1560
Tel (011) 815-5470 Fax (011) 362-6572

Vereeniging – Receiver of Revenue

cor. Joubert & Merriman Avenues,
Private Bag X07, Vereeniging, 1930
Tel (016) 933-2177 Fax (016) 933-2195

KWAZULU-NATAL AND EASTERN CAPE

Bisho – Receiver of Revenue

Tyamzashe Building, Sebe Avenue, Private Bag X0034,
Bisho, 5608, Tel (040) 609-4931 Fax (040) 35-1403

Durban – Regional Office

Penthouse Suite 2501, The Embassy, 199 Smith Street
Private Bag X54368, Durban, 4000
Tel (031) 367-6020 Fax (031) 332-2823

Durban – Receiver of Revenue

201 West Street, P.O. Box 921, Durban, 4000
Tel (031) 360-8383 Fax (031) 377-0040

Durban – Customs and Excise

Customs House, Victoria Embankment Road
Private Bag X54305, Durban, 4000
Tel (031) 367-6100 Fax (031) 337-2009

Durban International Airport

Private Bag X54305, Durban, 4000
Tel (031) 469-1979 Fax (031) 469-3569

East London – Receiver of Revenue

cor. Terminus & Station Streets, P.O. Box 692, East London, 5200, Tel (043) 722-4386 Fax (043) 743-2899

East London – Customs and Excise

Buffalo Harbour, Hely Hutchinson Street
Private Bag X9002, East London, 5200
Tel (043) 722-4386 X 224 Fax (043) 743-2899

Golela – Border Post

P.O. Box 473, Pongola, 3170
Tel (034) 435-1165 Fax (034) 435-1166

Pietermaritzburg – Receiver of Revenue

209 Pietermaritz Street, P.O. Box 383, Pietermaritzburg, 3200
Tel (033) 345-5817 Fax (033) 342-6100

Pietermaritzburg – Customs and Excise

Prestasi Building, 221 Pieter Maritz Street,
P.O. Box 352, Pietermaritzburg, 3200
Tel (041) 582-3540 Fax (041) 586-0618

Port Elizabeth – Receiver of Revenue

St. Mary's Terrace, cor. White & Main Streets
P.O. Box 345, Port Elizabeth, 6000
Tel (041) 585-4001 Fax (041) 582-3809

Port Elizabeth – Customs and Excise

156 Government Mbeki Avenue, Private Bag X6039, Port
Elizabeth, 6000, Tel (041) 585-1731 Fax (041) 586-0618

Port Elizabeth International Airport

Private Bag X6039, Port Elizabeth, 6000
Tel (041) 581-2181 Fax (041) 581-2777

Qachasnek – Borderpost

P.O. Box 844, Matatiele, 4730

Richards Bay – Customs and Excise

103 Dollard Drive, Alton, P.O. Box 225, Richards Bay, 3900
Tel (035) 798-6907 Fax (035) 798-6909

Uitenhage – Receiver of Revenue

1 Young Street, Private Bag X34, Uitenhage, 6230
Tel (041) 992-2536 Fax (041) 991-0327

Umlazi – Receiver of Revenue

Umlazi Centre, Amawhele Building,
Private Bag X18, Mobeni, Umlazi, 4060
Tel (031) 907-9035 Fax (031) 907-1120

Umtata – Receiver of Revenue

Sutherland Street, Private Bag X5027, Umtata, 5100
Tel (0475) 31-2165 Fax (0475) 31-1343

MPUMALANGA AND NORTH WEST

Beitbridge – Border Post

Private Bag X601, Messina, 0800
Tel (015) 530-0071 Fax (015) 530-0072

Giyani – Receiver of Revenue

Parliament Building, Department of Justice, Main Road
Private Bag X9665, Giyani, 0826
Tel (015) 812-1987 Fax (015) 812-1988

Groblersburg – Border Post

P.O. Box 101, Tom Burke, 0621
Tel (014) 767-1019 Fax (014) 767-1264

Jeppes Reef – Border Post

P.O. Box 3025, Shongwe, Mission, 1331
Tel (013) 781-0561/2 Fax (013) 781-0562s

Lebombo – Border Post

N4 Komatiipoort, P.O. Box 24, Komatiipoort, 1340
Tel (013) 790-7201 Fax (013) 790-7059

Lebowakgamo – Receiver of Revenue

Old Lebowa Finance Wing, Old Parliamentary Complex
Private Bag X34, Lebowakgomo, 0737
Tel (015) 633-6140 Fax (015) 633-6150

Mahamba – Border Post

Private Bag X5012, Piet Retief, 2580
Tel (017) 826-4629 Fax (017) 826-4622

Mananga – Border Post

P.O. Box 649, Komatiipoort, 1340
Tel (013) 790-7448 Fax (013) 781-7471

Mogwase – Border Post

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

Nelspruit – Receiver of Revenue

Nedbank Building, 31 Brown Street, Private Bag X11294,
Nelspruit, 1200, Tel (013) 752-5309 Fax (013) 752-6069

Nelspruit – Customs and Excise

Nelspruit Airport, P.O. Box 2981, Nelspruit, 1200
Tel (013) 741-3529 Fax (013) 741-3529

Nerston – Border Post

P.O. Box 458, Amsterdam, 2375
Tel (017) 846-9006 Fax (017) 846-9429

Oshoek – Border Post

Private Bag X9077, Ermelo, 2350
Tel (017) 882-0061 Fax (017) 882-0060

Pietersburg – Regional Office

The Mall, Ground Floor, cor. Biccand and Vorster Streets
P.O. Box 55600, Pietersburg 0700
Tel (015) 291-4670/1/3/4/5 Fax (015) 291-4678

Pietersburg – Receiver of Revenue

Landros Maré Street, Private Bag X9384, Pietersburg, 0700
Tel (015) 295-3100 Fax (015) 291-4019

Standerton – Receiver of Revenue

cor. Church & Princess Streets, Private Bag X2005,
Standerton, 2430, Tel (017) 712-6545 Fax (017) 712-3760

Venda – Receiver of Revenue

Old Post Office Building, Mphopho Street
Private Bag X2338, Sibasa, 0970
Tel (015) 963-3376 Fax (015) 968-3377

Witbank – Receiver of Revenue

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

FREE STATE AND NORTH WEST

Bloemfontein – Receiver of Revenue

cor. Aliwal & Voortrekker Streets,
P.O. Box 313, Bloemfontein, 9300
Tel (051) 506-3000 Fax (051) 448-0829

Bloemfontein – Customs and Excise

Metropolitan Building, cor. Aliwal & St. Andrews Streets
P.O. Box 265, Bloemfontein, 9300
Tel (051) 447-2507 Fax (051) 447-4699

Caledonspoort – Border Post

P.O. Box 175, Ficksburg, 9725

Ficksburg Bridge – Border Post

P.O. Box 17, Ficksburg, 9730
Tel (051) 993-5674/5 Fax (051) 933-5839

Kimberley – Receiver of Revenue

Hyescos Building, Old Main Road, Private Bag X6068,
Kimberley, 8300, Tel (053) 831-2250 Fax (053) 831-7616

Kimberley – Customs and Excise

cor. Night & Stead Streets, P.O. Box 86, Kimberley, 8300
Tel (053) 831-1644 Fax (053) 831-3241

Klerksdorp – Receiver of Revenue

Revenues Building, 39 Leask Street, Private Bag A4,
Klerksdorp, 2570, Tel (018) 464-1551 Fax (018) 464-2885

Kopfontein / Tlokweg – Border Post

P.O. Box 706, Zeerust, 2865
Tel (018) 365-9057 Fax (018) 365-9026

Kroonstad – Receiver of Revenue

Free State Pension Fund Building, 46 Hill Street,
Private Bag X01, Kroonstad, 9500
Tel (056) 212-2151 Fax (056) 212-1594

Mmabatho – Receiver of Revenue

Revenue House, Mmabatho, cor. Barokologabi & Bathlaping
Streets, Private Bag X2131, Mmabatho, 2735
Tel (018) 384-1336 Fax (018) 392-4650

Mmabatho – Customs and Excise

cor. Barokologabi & Bathlaping Streets, Private Bag X2038,
Mmabatho, 2735, Tel (018) 392-5942 Fax (018) 392-2942

Maseru Bridge – Border Post

P.O. Box 1042, Ladybrand, 9745
Tel (05192) 44-033 Fax (05192) 44-000

Ramatlahama – Border Post

Private Bag X113, Mmabatho, 2735
Tel (018) 386-2477 Fax (018) 386-2918

Rustenburg – Receiver of Revenue

cor. Klopper & van Staden Streets, Private Bag X82068,
Rustenburg, 0300, Tel (014) 592-2035 Fax (014) 597-1001

Skilpadshek – Border Post

Private Bag X2016, Lerato, Lehurutshes, 2865
Tel (018) 364-1469 Fax (018) 364-1469

Vanderbijlpark – Regional Office

Metropolitan Life Building, Ground Floor, 22 FW Beyers
Street, P.O. Box 4231, Vanderbijlpark, 1900
Tel (016) 933-2177 Fax (016) 933-2195

Van Rooyens Hek – Border Post

P.O. Box 10, Vredendal, 8160

Welkom – Receiver of Revenue

Central Government Building, cor. Heerden & Tulbach
Streets, Private Bag X3, Welkom, 9460
Tel (057) 352-8375 Fax (057) 352-2165

