Budgetary Review and Recommendation Report of the Standing Committee on Finance, Dated 24 October 2023

The Standing Committee on Finance (SCOF/ the Committee), having considered the annual performance report and audited financial statements of the National Treasury (NT), the South African Revenue Service (SARS) and the Tax Ombudsperson (TO) for the 2022/23 financial year, reports as follows:

1. INTRODUCTION

1.1. On 16 and 17 October 2023, the Minister of Finance, Mr Enoch Godongrana and senior staff of the National Treasury (NT) and the South African Revenue Service (SARS), led respectively by the newly appointed Director General of NT, Dr Duncan Pieterse and the Commissioner of SARS, Mr Edward Kieswetter, appeared virtually before the Standing Committee of Finance to present their annual reports and audited financial statements for 2022/23.

1.2. Prior to the presentation of the annual reports, the Office of the Auditor-General of South Africa (AGSA), led by Ms Nompakamo Matanzima, Business Unit Leader: Finance Portfolio, presented to the Committee the audit outcomes of all the entities that AGSA audits in the finance portfolio.

1.3. The Committee further received a presentation of the annual report of the Office of the Tax Ombud, led by the newly appointed Ombud, Ms Yanga Mputa.

2. MINISTER'S OVERVIEW

2.1. In his foreword to the annual report, Minister Godongwana said that the fiscal year 2022/23 presented a formidable blend of global and domestic challenges that underscored the resilient yet intricate nature of South Africa's economy. He said that the perpetual shadow of inflation gloomed internationally, escalating household and investment costs, with the tumultuous event of Russia's invasion of Ukraine further unsettling the global economic terrain. Internally, the menace of persistent load shedding shackled our production, investment, and employment potentials.

2.2. He stated that our nation's real GDP growth witnessed a contraction of 1.3 per cent in Q4 of 2022, marking an annual growth of a mere 2 per cent - a figure insufficient to realize the ambitious development aspirations of eradicating poverty, boosting employment, and curtailing inequality. The electricity crisis, deteriorating logistics and transportation systems, distressed municipal services, and escalating crime levels underscore the structural impediments afflicting our economy.

2.3. He said that FATF's decision to place South Africa on a "grey list" underlines the urgency to fortify our stance against money laundering and complex financial crimes. While alarming, it's essential to delineate the implications of this listing, ensuring an informed perspective and focused efforts towards the enhancement of our financial institutions and law enforcement capacities.

2.4. Minister Godongwana stated that amidst these tribulations, the 2022/23 strategy was carved with a keen eye on navigating uncertainties and fostering economic growth. Efforts intensified towards narrowing the budget deficit and bolstering infrastructure investments. A testament to this commitment was the allocation of over R254 billion to alleviate Eskom's financial burden, thereby accelerating investments in crucial infrastructural domains.

2.5. He stated that the augmentation of the Bounce Back Loan Guarantee Scheme illuminates government's strategy to combat energy constraints. By incentivizing rooftop solar investments, government aims to alleviate energy-related constraints shackling SMEs. The unveiling of tax incentives for rooftop solar installations and the enhancement of renewable energy tax incentives for businesses further underscore government's commitment to diversifying the energy sector.

2.6. Minister Godongwana assured that the municipal sector's integrity restoration is imminent. Escalating concerns about unfunded mandates, overspending, and inefficient revenue management are addressed through decisive interventions, including the placement of 25 municipalities under constitutional mandatory intervention. A nationwide rollout of training programs is envisaged to enhance the competencies of chief financial officers and municipal managers, strengthening the backbone of municipal administration.

2.7. In the international arena, Minister Godongwana stated that South Africa's participation in global forums continues to be instrumental. As the chair of the BRICS group of countries in 2023, South Africa is poised to highlight national and continental initiatives aimed at reviving and restructuring the global economy equitably. Our engagements within the World Bank, IMF, and G20 are pivotal in consolidating South Africa's position and influence in multilateral forums.

2.8. While challenges are profound, the Minister reflected, government's strategic responses are anchored in resilience, innovation, and collaboration. Every obstacle presents an opportunity for refinement and growth. He said that as government navigates these tumultuous waters, government's unwavering commitment remained geared towards a robust, inclusive, and sustainable economic trajectory for South Africa.

3. DIRECTOR-GENERAL'S OVERVIEW

3.1. In the context of an evolving economic landscape, Dr Pieterse explained that the National Treasury remains steadfast in its commitment to stimulate economic growth, uphold the integrity of the fiscal framework, implement a redistributive budget, and advance the effective governance of public finances. He said that NT has intensified efforts to establish stability within local governments, state-owned companies, and the public debt landscape.

3.2. He said that in its pursuit of transparent and accountable governance, government and NT have accentuated measures to eradicate corruption. This includes modernizing procurement processes, refining accounting compliance, and reporting frameworks. He said that NT were responsive to the insights and recommendations emanating from the state capture commission, instigating reforms and corrective measures where necessary.

3.3. Dr Pieterse explained that in collaboration with regulatory authorities, government is enhancing the anti-money laundering regime, aiming to address deficiencies identified by the Financial Action Task Force (FATF). He said that NT anticipate substantial improvements in compliance with the majority of the 20 standards highlighted by FATF.

3.4. Dr Pieterse explained further that the Economic Reconstruction and Recovery Plan (ERRP) and Operation Vulindlela represent pivotal vehicles for economic revitalization. He said that notable strides have been made in energy, freight logistics, and digital communications sectors, underscoring NT's commitment to multifaceted development.

3.5. Dr Pieterse said that the enactment of the Eskom Debt Relief Act illustrates the NT's proactive approach to reinforce Eskom's financial position. He said that this legislative measure equips Eskom to undergo essential restructuring, investment, and maintenance activities, fostering enhanced electricity supply security.

3.6. In response to the inflationary pressures on fuel prices, a collaborative intervention between the Ministries of Finance and Mineral Resources and Energy resulted in a temporary reduction in the general fuel levy from April to August 2022, Dr Pieterse explained. This initiative offered much-needed relief to households and was institutionalized through tax legislation during the review period.

3.7. The Infrastructure Fund has become a linchpin for the incorporation of private sector investment in government projects. It has facilitated the approval of 13 blended finance projects and programmes valued at R48.8 billion since its inception.

3.8. We are currently reviewing capacity building systems and conditional grants for local government to enhance efficacy and impact. The neighbourhood development partnership grant has enabled the preparation of municipal investment plans and the approval of catalytic projects, benefitting a diverse range of municipalities.

3.9. The fiscal year witnessed the successful financing of a R426 billion gross borrowing requirement through various instruments. Additionally, the integration of technology, evident in the enhanced eTenders portal and central supplier database, underscores our commitment to streamline and fortify public procurement processes.

3.10. In sum, the National Treasury's multifaceted approach is tailored to navigate the complexities of the current economic climate, driving strategic initiatives that foster economic growth, fiscal sustainability, and enhanced public service delivery. The synergy of policy, strategic partnerships, and technological integration forms the bedrock of our commitment to a prosperous and equitable South Africa.

4. STRATEGIC GOALS FOR 2019/20: NATIONAL TREASURY

4.1. The NT is responsible for managing the country's finances and draws its mandate from Chapter 2 of the Public Finance Management Act, Chapter 13 of the Constitution, and Chapter 5 of the Municipal Finance Management Act (MFMA). Chapter 13 of the Constitution lays the foundation for financial and fiscal management in the country, providing guidelines on how public funds should be managed, appropriated, and reported. Chapter 2 of the Public Finance Management Act (PFMA) provides detailed procedures and regulations for financial management in the national government and provincial governments, ensuring transparency, accountability, and sound management. Chapter 5 of the Municipal Finance Management Act (MFMA) outlines financial management protocols for municipalities, ensuring they are managed effectively, sustainably, and are transparent and accountable.

4.2. NT reports to five Medium Term Strategic Framework (MTSF) Priorities. On Priority 1: Capable, Ethical, and Developmental State, NT plays a pivotal role in building a competent, morally upright, and progressive state by enforcing policies and mechanisms that promote integrity, efficiency, and sustainable development. On Priority 2: Economic Transformation and Job Creation, NT facilitates and implements policies and strategies aimed at transforming the economy to be more inclusive, diverse and job-oriented. On Priority 3: Education, Skills, and Health, NT collaborates with educational and health sectors to ensure adequate funding and fiscal policies that promote quality education, skills development, and healthcare services. On Priority 5: Spatial Integration, Human Settlements, and Local Government, NT is committed to ensuring that fiscal policies support the spatial integration, development of human settlements, and the empowerment of local governments for efficient service delivery. And on Priority 7: A Better Africa and World, NT is involved in international fiscal policies and collaborations to ensure that South Africa plays its part in the development of a better Africa and world.

4.3. NT's key responsibilities include promoting the Government's fiscal policy and coordinating macroeconomic policy, managing the budget preparation process, and ensuring the stability and soundness of the financial system and financial services.

4.4. NT plays a critical role in the fiscal and financial management of the country, ensuring that resources are appropriated effectively and sustainably to meet national priorities and objectives. The MTSF priorities are central to NT's strategies and actions, aligning with broader national development goals.

5. OVERVIEW OF NATIONAL TREASURY'S OVERALL PERFORMANCE

5.1. NT's annual performance report for the 2022/23 fiscal year reveals a notable 80.36% of APP indicators fully achieved, 14.28% partially achieved, and 5.36% not achieved. The combined partially and not achieved targets amount to 19.64% of the total, pinpointing areas that require enhanced focus and strategies to improve efficiency and effectiveness in the upcoming strategic framework and fiscal cycle. NT's performance in 2022/23 marked a decline compared to previous years. This regression is observable from the 88.34% achievement in 2020/21 and 83.33% in 2019/20.

5.2. As of 31 March 2023, NT's anticipated expenditure stood at R38.838 billion. However, actual expenses recorded were R37.491 billion, yielding a variance of R1.346 billion or 3% below the projected spending. NT underspent R37.9m on Compensation of Employees due to vacant positions. On Goods and Services, R389 million was underspent due to various factors including:

- R120 million from delays in the Integrated Financial Management Systems (IFMS) license renewal,
- R74.1 million on various ongoing procurement projects within the Office of the Chief Procurement Officer (OCPO),
- R41.3 million attributed to the Municipal Revenue Management Improvement Programme (MRMIP) and smart meters project,
- R23.8 million within Jobs Fund due to delayed deliverables from service providers,
- R18.1 million delay in the Business Impact and Analysis (BIA) project,
- R15.9 million saved on Travel and Subsistence as virtual meetings continued,
- R15.4 million relating to lower than anticipated administrative claims.
- R80.4 million on assorted Goods & Services Items across different programmes.

5.3. On Transfers and Subsidies: R119.9 million was underspent, detailed as follows:

- R49 million on Post Retirement Medical Benefit (PRMB) due to increased mortality rate.
- R24.6 million on SA Citizen Force because of members' deaths, suspension of life certificates, and review cases.
- R17.8 million on Political Office Bearers due to sufficient reserves to meet payment obligations.
- R9.3 million on Special Pensions due to a reduction in membership.
- R5.6 million on Other Benefits owing to a decrease in membership.
- R5.6 million on Other Benefits Ex-Servicemen due to fewer invoices for Military Medical Accounts.
- R2.5 million on the United Kingdom Tax (UK) due to irregular claim receipts from DIRCO.

- R5.5 million on other various Transfers and Subsidies items mainly within programme 7.

5.4. On Payment of Capital Assets, R12.1 million was underspent due to udget set aside for replacing obsolete assets, including audio-visual and transversal system services, which was not used.

5.5. On Payment for Financial Assets, R787.4 million was underspent mainly related to the Land Bank under direct charges on Calls on guarantees according to Section 70 of the PFMA.

6. OVERVIEW OF NATIONAL TREASURY'S PROGRAMME PERFORMANCE

PROGRAMME 1: ADMINISTRATION

6.1. This programme is designed to provide strategic leadership, management, and support services to the department. It achieved 60% of its set targets, maintaining the previous year's performance rate and demonstrating effectiveness in areas of ICT service delivery (target: 93% - achieved: 95%), risk management maturity (target: Level 4 - achieved: Level 5). Partial Achievements (40.00%) were recorded on gender mainstreaming action plan, audit opinion on financial performance information (Target: clean audit- achieved: qualified audit opinion), and training and development budget spend (target: 70% - achieved: 62%). The unmet target of achieving an unqualified audit opinion was due to the ongoing dispute regarding the non-disclosure of the comparative amount of fruitless and wasteful expenditure related to the IFMS II Project.

6.2. Programme 1 was allocated a budget of R541,619,000 and recorded an actual expenditure of R486,826,000, leading to an under-expenditure of R54,793,000, marking an 89.9% expenditure as a percentage of the final appropriation. In comparison to the previous fiscal year, the under-expenditure showed a marginal increase from the R57,988,000 underspend recorded in 2021/22 against an appropriation of R513,051,000.

PROGRAMME 2: ECONOMIC POLICY, TAX, FINANCIAL REGULATION, AND RESEARCH

6.3. Programme 2 has demonstrated exceptional performance, achieving all its set targets (100%). The programme achieved 15 research papers, successfully submitted financial sector and tax legislation, developed 4 economic forecasts, and produced eight macroeconomic and microeconomic policy analysis and advice reports.

6.4. This programme had a final appropriation of R158,212,000 but spent R119,142,000, resulting in an under-expenditure of R39,070,000. The expenditure as a percentage of the final appropriation was 75.3%. In the fiscal year 2021/22, the under-expenditure was R16,498,000 against a final appropriation of R141,802,000.

PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

6.5. Programme 3 aims to provide analysis and advise on fiscal policy and public finances, intergovernmental financial relations, expenditure and planning priorities and to manage government's annual budget process and provide public finance management support. Programme 3 experienced challenges in meeting its targets, with a significant portion of its goals either partially achieved or not achieved.

6.6. The programme was allocated R4,374,731,000 and spent R4,289,832,000, leading to an under-expenditure of R84,899,000. The spending represented 98.1% of the final appropriation. During the 2021/22 fiscal year, the under-expenditure amounted to R136,736,000 with a final appropriation of R4,337,505,000.

PROGRAMME 4: ASSET AND LIABILITY MANAGEMENT

6.7. The Asset and Liability Management Programme (Programme 4) manages the government's annual funding programme in a manner that ensures prudent cash management. It also aims to promote and enforce prudent financial management of state-owned entities through financial analysis and oversight.

6.8. Programme 4 demonstrated a high level of achievement in asset and liability management, marking success in multiple areas but facing challenges in a specific aspect of the Public Finance Management Act (PFMA) applications review. Demonstrating consistency, this programme achieved 92.3% of its targets. Capacity constraints were identified as the primary challenge, slated for resolution through filling the vacancies.

6.9. In 2022/23, this programme recorded the largest under-expenditure. With a final appropriation of R6,024,410,000, the actual expenditure was R5,225,491,000, leading to an under-expenditure of R798,919,000, and marking an 86.7% expenditure rate. In the previous year, this programme also had a significant underspend of R442,771,000 against a whopping R27,105,938,000 appropriation.

PROGRAMME 5: FINANCIAL ACCOUNTING AND SUPPLY CHAIN MANAGEMENT SYSTEMS

6.10. Programme 5 exhibited a mixed performance, with several achievements, partial achievements, and areas where targets were not met. This programme recorded a 69.24% target achievement rate. Issues related to IFMS and delays in procurement processes were notable challenges. The IFMS system was not developed, and the e-Recruitment system was not implemented at pilot and lead sites, indicating strategic, technical and operational challenges.

6.11. For the 2022/23 fiscal year, this programme was allocated R946,132,000 and recorded an expenditure of R716,652,000, resulting in a R229,480,000 under-expenditure, or 75.7% of the allocated budget being spent. In 2021/22, the under-expenditure was slightly higher at R238,338,000 against a R1,000,026,000 appropriation.

PROGRAMME 6: INTERNATIONAL FINANCIAL RELATIONS

6.12. Programme 6 has exhibited outstanding performance, with a 100% achievement rate in its set targets. This reflects the programme's effectiveness in fostering international financial relations and executing its mandates effectively.

6.13. The programme exhibited robust financial performance, spending R2,848,635,000 of its R2,857,266,000 allocation, leading to a minimal under-expenditure of R8,631,000 (99.7% expenditure rate). In the previous fiscal year, the under-expenditure was R17,722,000 against an allocation of R7,844,172,000.

PROGRAMME 7: CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS, AND OTHER BENEFITS

6.14. Programme 7 has demonstrated exemplary performance, surpassing the set targets. This indicates high efficiency in managing pensions, contributions to funds, and other benefits while ensuring the integrity of client data and mitigating fraudulent claims.

6.15. This programme was allocated R6,904,051,000 and expended R6,773,586,000, leading to an under-expenditure of R130,465,000 (98.1% expenditure). In 2021/22, the over/under-expenditure stood at R366,752,000 against a R6,409,525,000 allocation

HUMAN CAPITAL

6.16. NT had 1,050 permanent positions filled out of 1,262 funded posts, indicating a 16.8% vacancy rate. The Senior Management Services recorded 64 vacant posts across various levels, including the Director-General's position.

7. SARS COMMISSIONER'S OVERVIEW

7.1. Mr Kieswetter noted that SARS marked its 25th anniversary, a significant milestone that underscores its commitment to collecting revenue crucial for the country's development. Established by the South African Revenue Service Act, SARS has been a bedrock of financial stability, collecting over R18 trillion since its inception.

7.2. In its pursuit to transform into a 'smart, modern SARS with unquestionable integrity,' the organization has made notable strides. Enhanced governance structures, progressive integration of technology, and a shift towards data analytics and machine learning have marked its journey. These improvements are reflections of SARS's dedication to fostering a nation that thrives on economic growth and social development.

7.3. In the aftermath of COVID-19 and compounded by the Ukraine crisis, South Africa faced complex economic dynamics. Despite these challenges, SARS showcased resilience with an upward trajectory in revenue collection. Even with a deficit against the Revised Estimate, the organization recorded significant year-on-year growth.

7.4. SARS's operations are deeply anchored in fostering a nation where the ideals of economic growth and social development transition from aspiration to reality. The intricate balance between enhancing voluntary compliance and ensuring stringent oversight has been pivotal. Operational highlights include processing over 9.4 million tax assessments and the introduction of innovative service channels, underscoring SARS's commitment to elevating the taxpayer experience.

7.5. The Commissioner emphasised that employee welfare is a cornerstone of the organization's success. The introduction of an enhanced Employee Value Proposition and a positive Employee Engagement Survey score illuminates SARS as an entity where employee welfare is prioritized. He said that the strategic appointment of Deputy Commissioners is geared towards bolstering executive leadership, pivotal for driving the organization's objectives. This aligns with the unwavering focus to ensure that SARS is not only reactive but also proactive in navigating the evolving fiscal landscape.

7.6. The Commissioner extended his gratitude to government officials, parliamentary oversight bodies, and SARS employees. As the organization commemorates its 25th anniversary, it reflects not just on the past but is also a clarion call to elevate service delivery, foster economic growth, and ensure that it remains a bastion of integrity and excellence.

8. STRATEGIC GOALS OF THE SOUTH AFRICAN REVENUE SERVICE

8.1. SARS is entrusted with the critical responsibilities of collecting all due revenues, ensuring optimal compliance with tax and customs legislation, and providing a streamlined customs service. These functions are not just statutory obligations but are rooted in a profound commitment to fostering a nation where economic growth and social development are tangible realities for all.

8.2. The objectives of SARS are grounded in its core mission: the efficient and effective collection of revenue and the stringent control over the import, export, manufacture, movement, storage, or use of particular goods. This mission is operationalized through nine strategic objectives that form the backbone of its operational framework and strategic direction.

8.3. The first strategic objective (SO1) is focused on providing clarity and certainty to taxpayers and traders regarding their obligations. This clarity is instrumental in ensuring compliance and fosters a transparent and predictable tax environment. SO2 is dedicated to simplifying the process of compliance. By making it easy for taxpayers and traders to comply with their obligations, SARS aims to increase voluntary compliance and enhance the efficiency of the tax collection process. In SO3, the focus shifts to identifying and dealing with non-compliance. It aims to detect those who evade their obligations and ensure that non-compliance is both challenging and costly, serving as a deterrent to potential defaulters.

8.4. SO4 is centered on the workforce. SARS is committed to developing a team that is high-performing, diverse, agile, and engaged, ensuring that the workforce evolves to meet the dynamic needs of the tax environment. With SO5, SARS underscores the importance of data and knowledge management. The objective is to leverage data to ensure integrity, derive insightful analytics, and enhance the outcomes of the tax administration processes. SO6 is focused on modernization. In a rapidly evolving digital landscape, SARS aims to upgrade its systems to offer streamlined online services, enhancing efficiency and taxpayer experience.

8.5. Resource stewardship is the focus of SO7. It seeks to ensure that resources are utilized efficiently and effectively, underpinning a culture of performance excellence and quality outcomes. SO8 emphasizes stakeholder engagement. SARS is committed to working collaboratively with stakeholders to improve the tax ecosystem, fostering a synergy that enhances compliance and efficiency. Finally, SO9 is all about building public trust and confidence. SARS aims to enhance the credibility and reliability of the tax administration system, fostering a culture of compliance and collective contribution to the nation's development.

8.6. Together, these strategic objectives outline a comprehensive approach to revenue collection and control over specific goods, grounded in efficiency, effectiveness, and a steadfast commitment to fostering a compliant and productive tax environment.

9. OVERVIEW OF THE SOUTH AFRICAN REVENUE SERVICE PERFORMANCE

9.1. SARS constitutes Programme 9: Revenue Administration, in NT’s strategic and annual performance plans. As a programme, SARS effectively utilized its entire budget, with no under-expenditure recorded. The full R11,635,781,000 allocated was expended, maintaining a 100% expenditure rate from the previous fiscal year, where it also expended its entire R11,295,167,000 allocation.

9.2. For SO1, which aims to provide clarity and certainty for taxpayers and traders regarding their obligations, a 75.3% satisfaction rate among the surveyed taxpayers and traders was recorded, up from the previous year’s 69.1%. This was supplemented by the issuance of 1,126 rulings and opinions and over a million positive responses from chatbot Lwazi.

9.3. Efforts to achieve SO2, making it easy for taxpayers and traders to comply with their obligations, were marked by an 89.4% utilisation of digital and self-help platforms. The growth in the acceptance rate of Auto Assessments underscored the enhanced ease of compliance.

9.4. In line with SO3, aimed at detecting non-compliant taxpayers and traders and making non-compliance hard and costly, SARS' automated risk engines identified over 96.0% of compliance risks. This accomplishment, along with R5.8 billion in customs seizures and a 98.0% conviction rate through NPA, underscored the robustness of SARS' compliance enforcement mechanisms.

9.5. Under SO4, focused on developing a high-performing, diverse, agile, engaged, and evolved workforce, the Employee Engagement Index score soared to 69.4%. The introduction of a modernised Annual Recognition Programme and the implementation of a Hybrid working pilot project were pivotal in achieving this objective. Racial and disability equity metrics also showcased notable improvements.

9.6. For SO5, aiming to increase and expand the use of data to ensure integrity, derive insight, and improve outcomes, 100% of verification cases were selected through automated risk assessment functionality. The updated Data Governance Framework and comprehensive training on data governance for staff illustrated a strengthened focus on data integrity and insights.

9.7. SO6, targeting system modernisation for digital and streamlined online services, saw a 99.7% system availability. The zero security breaches and the introduction of Unstructured Supplementary Service Data (USSD) as an additional service channel epitomised the strides made in enhancing digital services.

9.8. SO7's focus on demonstrating effective stewardship of resources for efficiency and quality outcomes was evidenced by a clean AG Audit Report and a minimal deviation in SARS' spending compared to the National Treasury allocation.

9.9. In alignment with SO8, working with stakeholders to improve the tax ecosystem, 90.3% of intermediaries expressed satisfaction with SARS' assistance. The organisation's active participation in global platforms showcased its commitment to collaborative enhancement of the tax ecosystem.

9.10. In the pursuit of SO9, to build public trust and confidence in the tax administration system, the new Service Charter performance score reached 79.3%, and the public opinion survey index improved to 76.5%, reflecting heightened public confidence.

9.11. Financially, the net revenue collection of R1 686.7 billion and compliance revenue of R231.8 billion. Gross revenue collected ascended to R2 067.8 billion in 2023, marking a 9.7% growth from R1 884.9 billion in 2022. Refunds paid also saw a significant escalation, amounting to R381.1 billion in 2023, an 18.7% increase from the previous year's R321.1 billion.

9.12. Though there was a marginal shortfall in net revenue collected against the revised estimate, the R1 686.7 billion garnered in 2023 was indicative of a 7.9% growth from R1 563.8 billion in 2022. The revised estimate for 2023 stood at R1 692.2 billion. The net revenue collection for the year fell short by R5.5 billion (0.3%) of the Revised Estimate.

9.13. Dissecting the revenue streams, Pay As You Earn (PAYE) contributors on the active register increased to 643,370 by 31 March 2023, up from 632,599 the previous year and 618,478 in 2021. Value Added Tax (VAT) contributors experienced similar growth, totalling 953,665 in 2023, compared to 941,406 in 2022 and 880,553 in 2021.

9.14. Individual income tax contributors demonstrated a significant rise, numbering 25,944,562 by 31 March 2023, a noticeable increase from 24,832,105 in 2022 and 23,850,668 in 2021. Similarly, company income tax contributors rose to 3,926,252 in 2023, marking growth from 3,532,646 in 2022 and 3,112,509 in 2021. Trust income tax contributors also increased to 379,280 in 2023, up from 373,084 in 2022 and 367,540 in 2021.

9.15. A breakdown of South Africa's tax revenue collections and contributions for the fiscal year 2022/23 reveals distinct trends and fluctuations. Personal Income Tax (PIT), VAT, and Corporate Income Tax (CIT) continued as major tax revenue sources, collectively contributing approximately 80% to total tax revenue collections.

9.16. Comparative data spanning six years unveils the CIT's growing influence, with its contribution elevating from 18.1% in 2017/18 to 20.6% in 2022/23. Conversely, PIT's contribution dipped from 38.1% to 35.7% over the same period. VAT's contribution, having peaked at 26.5% in 2020/21, retracted to 25% in 2022/23. Notably, the tax-to-GDP ratio rebounded to 25.4% in the year under review, following a previous slump to 22.3% in 2020/21.

10. TAX OMBUDSPERSON'S OVERVIEW

10.1. The Tax Ombuds, Ms Yanga Mputa, explained that a retrospect of a decade ago mirrors an institution in its nascent stages, equipped with six staff members and 61 validated taxpayer complaints. Fast-forward to the present, the metamorphosis is palpable as the OTO boast a formidable team of 39, having engaged approximately 15,000 taxpayers and validated nearly 3,900 complaints.

10.2. She said that OTO's unwavering commitment to its mandate has precipitated sound recommendations following taxpayer complaints, of which an impressive 99% have been implemented by SARS.

10.3. She explained that the functional independence has been the bedrock of OTO's credibility and effectiveness. Financed by a budget sanctified by the Minister of Finance and insulated from

SARS' fiscal allocations, OTO maintained objectivity and impartiality. However, the quest for structural independence is ongoing, and the OTO is optimistic about the fruition of this objective.

10.4. She said that OTOs outreach initiatives have transcended traditional boundaries, propelled by a dynamic digital strategy. The OTO's new digital platforms, marked by a user-friendly website and an intensified social media presence, are testament to the Office's commitment to accessibility and engagement.

10.5. The Tax Ombuds extended a heartfelt gratitude to Judge Bernard Ngoepe, whose leadership laid a robust foundation for OTO as the first Tax Ombuds.

11. OFFICE OF THE TAX OMBUDS MANDATE AND STRATEGIC OBJECTIVES

11.1. The OTO operates under a clear, legislatively backed mandate under section 14 of the Tax Administration Act, 28 of 2011 (TAA). The statutory mandate, outlined in section 16 of the TAA, empowers the OTO to review and address any complaint by a taxpayer concerning service, procedural or administrative issues arising from the application of the provisions of a tax Act by SARS. The OTO was established on 1 October 2013.

11.2. Furthermore, the OTO is authorized to review, at the request of the Minister or upon its initiative with the Minister's approval, systemic and emerging issues related to service or the application of the provisions of the TAA or procedural or administrative provisions of a tax Act.

11.3. The OTO's functions focus on providing an impartial, efficient avenue for taxpayers to resolve disputes and grievances against SARS. The key functions include assisting taxpayers with complaints against SARS, identifying systemic issues promotion of taxpayer rights and obligations, and contributing to improved tax compliance and administration.

11.4. The OTO has six strategic objectives (SOs) that are aimed at enhancing its role and effectiveness in addressing taxpayer complaints and improving tax administration, as follows:

11.4.1. Review and Address Complaints (SO1): efficiently capture, acknowledge, and resolve complaints by taxpayers against the South African Revenue Service (SARS). This SO measures success by the speed and efficiency of handling and resolving complaints.

11.4.2. Improve Tax Administration (SO2): contributes to enhancing the tax administration system and build confidence among taxpayers. The OTO identifies and addresses systemic issues and publishes information on taxpayers' rights and obligations.

11.4.3. Organizational Agility (SO3): create an agile organization that can adapt and scale efficiently to meet the demands of taxpayers. This includes enhancing operational efficiency and responsiveness.

11.4.4. Stakeholder Engagement (SO4): fosters engagement and collaborations with various stakeholders to promote taxpayer rights and improve service delivery. The OTO implements strategies to maintain effective communication and relationships with stakeholders.

11.4.5. Governance and Business Processes (SO5): optimizes governance structures, risk management, and business processes to ensure the organization's effectiveness and compliance with legal and regulatory requirements. The objective is also to ensure transparency, accountability, and efficiency in operations.

11.4.6. Enhance OTO's Mandate (SO6): strengthens the mandate of OTO to make it more impactful in addressing taxpayers' complaints and systemic issues in tax administration. This may involve legislative amendments or policy reforms to enhance OTO's authority and effectiveness.

11.5. In Essence, the OTO's strategic objectives focus on efficiently handling taxpayer complaints, improving tax administration, enhancing organizational agility, fostering stakeholder relationships, optimizing governance structures, and strengthening OTO's mandate. These objectives are aligned with its role in promoting fairness, transparency, and effectiveness in tax administration, ensuring that taxpayers' rights are protected and obligations are met.

12. OVERVIEW OF PERFORMANCE OF THE OFFICE OF THE TAX OMBUDS

12.1. In the 2022/23 reporting period, the OTO marked notable achievements, underscoring its commitment to efficiency, effectiveness, and the continuous improvement of taxpayer services.

12.2. During the 2022/23 period, the OTO managed a total of 4,014 complaints. These were scrutinized, resulting in 3,960 complaints being validated. A breakdown of these figures revealed that 1,745 (44.07%) complaints were rejected, while 518 (13.08%) were terminated. The remaining 1,697 (42.85%) were accepted for further investigation and resolution.

12.3. Efficiency in the complaint handling process was evident, with 95% of complaints being captured and acknowledged within just two business days. As for the resolution timing, there was a distinct improvement. A total of 26.16% (455 complaints) were adeptly resolved within 15 business days, marking a 74.33% improvement from the preceding year. However, the more complex cases, constituting 73.8%, necessitated a longer resolution time.

12.4. In the realm of SARS implementing OTO's recommendations, the report was positive with a 99% implementation rate, indicating a significant level of agreement and collaboration between the two entities. The impact of this was palpable, as the top 10 refunds facilitated by the OTO's interventions amounted to a substantial R103 million. This financial impact underscores the tangible benefits of the OTO's work, directly contributing to the financial well-being of affected taxpayers.

12.5. When examining the rejected complaints, it was found that 96.67% (1,687 complaints) were dismissed because taxpayers hadn't exhausted the SARS complaints resolution mechanism, underscoring the importance for taxpayers to follow due processes before escalating their concerns to the OTO.

12.6. An insightful revelation was that the majority of resolutions favored the taxpayer. On average, over 80% of the complaints were resolved in the taxpayer's favor, as opposed to the mere 20% that leaned towards SARS. This statistic underscores the OTO's pivotal role in advocating for taxpayers' rights and ensuring fair treatment.

12.7. Progress in strategic goals was marked by the identification of new systemic issues and a planned reduction in open systemic issues. The publication of a *Compilation of Taxpayers' Rights, Entitlements, and Obligations* marked a significant step towards enlightening taxpayers on their rights and responsibilities, fostering an informed taxpayer base.

12.8. On the digital front, the OTO's presence was markedly felt. Over 30,000 individuals accessed the OTO website via various means, including organic searches and social media, underscoring the OTO's expanding digital footprint. Employee engagement was also heightened, utilizing diverse communication channels to ensure a well-informed and engaged workforce.

12.9. Financially, the OTO exhibited prudence and efficiency. With an approved annual budget of R51.424 million for the 2022/23 financial year, the actual expenditure was R48.242 million. This positive variance is attributed to effective financial management and operational efficiency.

13. REPORT OF THE AUDITOR-GENERAL SOUTH AFRICA ON NATIONAL TREASURY AND FINANCE PORTFOLIO ENTITIES FOR 2022/23 FY.

13.1. AGSA normally audits 17 of the entities in the finance portfolio, but only audited 16 for 2022/23, as the Land Bank was exempted for submitting financial statements by the Minister of Finance. These include regulatory agencies, development banks, state-owned insurance and investment companies, government agencies, National Treasury and the revenue authority - SARS.

13.2. The regulatory agencies audited are the: Accounting Standards Board (ASB), Co-operative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre, Financial Sector Conduct Authority, Independent Regulatory Board for Auditors (IRBA), Pension Funds Adjudicator (PFA). The SARB and the Prudential Authority are audited by private auditors. The development banks audited are the Land and Agricultural Development Bank of South Africa (LB) and the Development Bank of Southern Africa (DBSA). The audited government agencies are the Government Technical and Advisory Centre (GTAC) and the Government Pension and Administration Agency. The insurance and investment companies are the Public Investment Corporation, Land Bank Insurance SOC, and the Land Bank Life Insurance SOC Limited (LBLIC). The latter two are subsidiaries of the Land Bank. South African Special Risk Insurance Association (SASRIA) is not audited by AGSA.

13.3. AGSA reported a marked improvement in the overall audit outcomes across the portfolio compared to the previous year. Currently, eleven audits, namely DBSA, LBIC, LBLIC, IRBA, FAIS, FFC, FIC, OPFA, SARS, GTAC, and FSCA, have attained the esteemed status of an unqualified audit opinion with no findings (clean). This equates to 69% of the audits in the portfolio, a substantial leap from the 37% achieved in the preceding year.

13.4. AGSA extended commendations to the management, accounting authorities/officers, and the executive authority of the six entities (FIC, OPFA, FAIS, SARS, GTAC, FFC) that enhanced their audit outcomes from unqualified with findings to clean audit outcomes. Credit also went to DBSA, LBIC, LBLIC, IRBA, and FSCA for maintaining their clean audit outcomes. This progress stemmed from enhanced control environments and the assiduous implementation of comprehensive action plans addressing the root causes of previous unfavourable audit outcomes.

13.5. Unfortunately, the Land Bank (LB) regressed to an unqualified audit with findings, attributed to material misstatements arising from ineffective controls over collateral registers preparation and review, contravening section 55 of the PFMA.

13.6. Four auditees, namely PIC, GPAA, CBDA, and NT, retained their previous year's audit outcomes. Persistent struggles with legislative compliance stem from inadequately addressed internal control deficiencies noted in prior year action plans. Non-compliances noted revolved around consequence management (GPAA, CBDA), supply chain management (GPAA), material misstatements in submitted financial statements (NT, LB), and asset management (PIC). Despite PIC's efforts to rectify previous non-compliances, issues lingered, with the current year spotlighting non-compliance with assets under management policies for monitoring external managers.

13.7. In a positive light, the current year marked the absence of non-compliance in expenditure management within the portfolio - a notable improvement. There was a significant reduction in irregular expenditure and no incidents of fruitless and wasteful expenditure linked to NT's IFMS project.

13.8. AGSA noted that the audit outcomes for entities like PIC and CBDA masks underlying improvements, notably in the realm of performance information. Both entities emerged with no material findings from the audit of predetermined objectives (AoPO) this year, marking a significant step forward. Likewise, GPAA's audit narrative is one of progress, evidenced by the absence of findings on financial statements and a reduced tally of non-compliance findings on supply chain management.

13.9. However, a persistent concern lingers around the National Treasury's (NT) audit outcome, echoing the prior year's qualified stance with findings on compliance. The qualification roots in the non-disclosure of Fruitless and Wasteful (F&W) expenditure tied to the IFMS. Although the current year saw no IFMS-linked expenditure – attributed to ongoing contract renegotiations with Oracle – the non-disclosure of the comparative F&W expenditure amount underpins the qualification. AGSA noted NT's dissent with AGSA's stance. It also noted the reduction in financial statement findings and enhancements in the audit of predetermined objectives, where the current year remained devoid of material findings.

13.10. AGSA noted a commendable synchronization of clean audit opinions and target achievements. Five out of eleven auditees with clean audits, including DBSA, FFC, FIC, SARS, and GTAC, also realized over 80% of their core mandate targets. AGSA said that this dual achievement underscores a relentless commitment to both financial and operational excellence.

13.11. AGSA said attention must also cast upon the remaining six auditees, who, although boasting clean audits, realized between 50% to 79% of their core mandate targets. The call here is for intensified efforts to bridge the gap, honing performance management to drive effective and efficient service delivery, meticulously aligned with their respective mandates.

13.12. On performance against MTSF and annual performance plans, AGSA said that the intertwining of the finance portfolio entities with all seven priority areas of the MTSF is evident. A thorough assessment underscores the alignment of these entities' strategic plans and APPs with the overarching government priorities, enshrined in both the MTSF and the National Development Plan (NDP) 2030. A notable exemption in this regard was LB, whose performance information wasn't audited for the 2022-23 fiscal year, mirroring the precedent set in the prior fiscal year, courtesy of a section 92 exemption endorsed by the executive authority. This deviation notwithstanding, the sweeping overview of performance against set benchmarks is marked by precision and consistency.

13.13. On governance and stability, AGSA said that the bedrock of stability and effective functioning within the portfolio is fundamentally attributed to well-structured governance. This assertion is supported by the fact that a majority of auditees possess fully constituted boards/accounting authorities (AA) and key executive positions are adequately filled or are in the transitional phase of appointment. Recalling the previous fiscal year, notable vacancies were identified, including the Accounting Officer (AO) roles at GTAC and GPAA, CEO/MD positions at CBDA, LB, and IRBA, and CFO roles at NT, GPAA, PIC, and IRBA. Additionally, NT had vacant positions for the Accountant-General, Chief Procurement Officer (CPO), and Chief Audit Executive (CAE). Transitioning to the current year, key appointments were made including the CEO and CFO at IRBA, CEO and CAE at LB, CEO at GPAA, and the Accountant-General and CPO at NT. Furthermore, the inauguration of a new Director-General (DG) at NT post the fiscal year-end was noted.

13.14. On the quality of submitted financial statements AGSA noted a leap from nine (56%) entities with no material misstatements in the prior year to fourteen (88%) in the current reporting period. In the 2022-23 fiscal year, only NT and LB submitted financial statements characterized by material misstatements identified during the audit process. AGSA extended commendation to the management teams of PIC, SARS, GPAA, FFC, CBDA, and OPFA for their effective responses to previously identified root causes, culminating in the submission of reliable and credible financial statements.

13.15. AGSA reported that it observed a significant improvement in the quality of the performance reports submitted. Unlike the previous year, no auditee had material findings concerning the usefulness and reliability of reported performance information. Consequently, there were no qualifications on performance information, marking a commendable advancement. However, AGSA further reported that three entities (OPFA, FAIS, FSCA) presented annual performance reports with misstatements. It expressed appreciation to the proactive stance of management in correcting these misstatements, ensuring that AGSA did not raise material findings on the usefulness and reliability of the reported performance information.

13.16. AGSA further noted that in the 2022-23 financial year, the portfolio showcased significant advancements in expenditure management, a progress that is both commendable and indicative of the enhanced controls and oversight mechanisms instituted. This year, AGSA observed that none of the entities within the portfolio had material non-compliance findings linked to expenditure management. This positive trajectory can be attributed to the reinforced control environment and the decisive actions implemented to curb irregular and fruitless & wasteful (F&W) expenditure.

13.17. Furthermore, AGSA noted that a detailed review of the portfolio's expenditure patterns indicates a reduction in reported annual irregular expenditure, decreasing from R85 million in the 2021-22 financial year to R80 million in the 2022-23 financial year. Despite this reduction, NT, GTAC, and GPAA are identified as the predominant contributors to irregular expenditure, accounting for over 78% of the total irregular expenditure. However, it's imperative to note the substantial improvements in their control environment. The disclosed irregular expenditure is attributed to previous year contracts; notably, no new contracts were flagged as irregular in the current year.

13.18. On the front of F&W expenditure, a significant reduction is noted, plummeting from R90 million to R1.788 million. A closer examination reveals that NT did not incur any F&W expenditure on IFMS this year due to ongoing contract renegotiations with Oracle. The reported F&W expenditure primarily emanates from GPAA, resulting from a duplicate payment amounting to R1.7 million.

13.19. AGSA reported that in the current cycle NT, DBSA, LB, and GPAA were scrutinized for material irregularities (MIs) as per the Public Audit Act (PAA). AGSA reported with satisfaction that no MIs were identified for these audited entities in the current year. AGSA however noted that it was critical to revisit an MI issued to NT in the 2020-21 audit cycle, related to the payment of maintenance and technical support for the Integrated Financial Management System (IFMS). The MI, indicating a material financial loss of R400 million, stems from expenditures incurred over the period spanning the 2016-17 to 2021-22 financial years. It said that it was notable that no such expenditure was recorded in the 2022-23 fiscal year.

13.20. It further reported that the AO was informed of the MI on 13 May 2021. In the response received on 9 July 2021, the AO contested the classification of the expenditure as fruitless and wasteful, maintaining that the government had not incurred a long-term financial loss. The divergence in perspectives led to the referral of the MI to the Special Investigating Unit (SIU) on 12 January 2022, aligning with the provisions of section 5(1A) of the PAA.

13.21. Interestingly, the SIU was already investigating the matter under Proclamation R.4 of 2020, augmented by Proclamation R.40 of 2020. It reported further that the pivotal development in the year under scrutiny was the transfer of all findings and documentation related to this MI by the PPSA to the SIU. This consolidation of information is anticipated to yield a comprehensive and holistic report on the matter. The culmination of the SIU's investigation was the briefing of the Standing Committee on Public Accounts (SCOPA) on 13 September 2023. The committee was apprised of the findings and outcomes related to the IFMS expenditure. AGSA said that its role as it advances into the next audit cycle, will be to keenly monitor the repercussions and responses emanating from the SIU's report.

13.22. AGSA reported that in the realm of managing consequences related to irregular expenditure, the portfolio has generally demonstrated effective measures. The significant progress exhibited by the FFC deserved a commendation, as it underscored a diligent and responsive approach in addressing cases from the 2021-22 non-compliance report.

13.23. AGSA however noted areas that require amplified focus and enhancement. The Government Pensions Administration Agency (GPAA) is one entity where the implementation of consequence management has not met the expected standard. The recurrent material non-compliance findings highlight the absence of comprehensive investigations, or tangible evidence thereof, akin to observations made in the previous fiscal year. Similarly, the CBDA encountered challenges in enforcing effective consequence management. AGSA reported that the entity has not demonstrated substantial actions in addressing non-compliance identified in antecedent years, signaling a need for a reassessment and fortification of its compliance mechanisms.

13.24. On financial health, AGSA reported that the financial well-being of entities within the finance portfolio remained predominantly stable, mirroring the patterns observed in the preceding year. LB, however, emerged as an exception warranting focused attention and targeted interventions. AGSA recapped that in April 2020, LB encountered a liquidity crisis leading to a default on several of its financial obligations. This incident instigated a cross-default, culminating in a cessation of capital and interest payments to its financiers. Currently, efforts are underway to devise a liability solution aimed at rectifying this default.
A key component of this remedial process hinges on the finalization of commitment agreements with lenders, a phase that is presently in progress.

13.25. In the 2021 National Budget, LB was earmarked to receive R7 billion, a financial injection aimed at addressing the default status and reinvigorating the bank's developmental and transformational agenda. A sum of R5 billion was allocated for the 2021-22 fiscal year and an additional R1 billion for each of the subsequent two financial years. The transfer of the R5 billion, initially allocated for 2021-22, was executed by the National Treasury (NT) to LB on March 31, 2023, influenced by the delayed resolution of the default status.

13.26. AGSA reported that despite the financial challenges faced, LB’s net asset position remains positive, bolstered by optimistic operating cash flows. These financial dynamics have facilitated substantial capital repayments on funding liabilities. Moreover, the rejuvenation of lending activities through the blended finance scheme is projected to sustain positive cash flow trajectories.

13.27. AGSA noted that on a broader scale, NT has been instrumental in providing financial guarantees to various entities, facilitating their access to funding essential for mandate fulfillment. As of March 31, 2023, NT had extended guarantees totalling R15 billion to the South African Reserve Bank (SARB), LB, and the Development Bank of Southern Africa (DBSA). This represents a 25% reduction in issued guarantees compared to the previous year, primarily attributed to the R1.3 billion reduction related to LB guarantees.

14. OBSERVATIONS AND RECOMMENDATIONS

GENERAL OBSERVATIONS AND RECOMMENDATIONS ON THE FINANCE PORTFOLIO

14.1. The Committee acknowledges a marked enhancement in the 2022/23 audit outcomes for the finance portfolio compared to previous years, with all audited annual reports submitted punctually.

14.2. The Committee is pleased to report that in 2022/23, eleven entities including DBSA, LBIC, LBLIC, IRBA, FAIS, FFC, FIC, OPFA, SARS, GTAC, and FSCA, secured unqualified audit opinions with no findings, achieving a "clean" status. This constitutes 69% of the audits in the portfolio, marking a significant improvement from the 37% recorded in the previous year.

14.3. The Committee echoes AGSA's praise for the six entities (FIC, OPFA, FAIS, SARS, GTAC, FFC) that elevated their audit outcomes from unqualified with findings to clean audit results. We also extend our commendations to DBSA, LBIC, LBLIC, IRBA, and FSCA for upholding their clean audit outcomes.

14.4. The Committee observes that advancements in audit outcomes are a product of refined control environments and diligent execution of thorough action plans that address the foundational issues of prior unfavourable audit results.

14.5. Throughout 2022 and 2023, the Committee tracked the execution of audit action plans and the appointment process for vacant roles within the finance portfolio. On May 3, 2023, the Committee presented nine oversight reports to Parliament, outlining our activities surrounding the audit action plans. We acknowledge and appreciate AGSA’s recognition and message that our persistent oversight has yielded positive outcomes.

14.6. The Committee underscores its dedication to rigorous monitoring and consistent engagement with both executive and accounting authorities. We aim to ensure the presence of comprehensive review and monitoring controls, the effective execution of action plans, and the filling of key roles to elevate organizational efficacy and governance throughout the portfolio.

14.7. In our handover report, the Committee will stress the critical role of synergy amongst the Committee, department, and entities in addressing the root issues pinpointed in the 2022/23 audit report. We believe that with strict oversight, dedication to executing primary recommendations, and ongoing surveillance, notable progress can be achieved in enhancing financial governance, administration, and service provision across the board. The Committee reaffirms its unwavering commitment to these goals and advocates for a unified effort from all involved parties.

14.8. The Committee's conviction is anchored in the unwavering belief that the attainment of clean audits should unequivocally translate into enhanced service delivery, elevating the lived experiences of the citizenry. It posits that the essence of audits, especially clean audits, transcends the procedural compliance and financial propriety and extends into the realm of impactful, tangible, and measurable service delivery. In this context, the confluence of financial integrity and service delivery excellence is seen not as an aspiration but as a fundamental expectation.

14.9. In this spirit, the Committee expresses its commendation of AGSA's strategic orientation, notably its approach to auditing strategic and annual performance targets, meticulously aligning them with the government's Medium Term Strategic Framework (MTSF) and National Development Plan (NDP) priorities. This alignment is not perceived as a bureaucratic exigency but as a cardinal pathway to ensuring that financial prudence is symbiotically linked with strategic performance, operational efficiency, and service delivery impact.

14.10. The Committee expresses concern over the Land Bank's (LB) audit outcome regression, resulting in an unqualified audit with findings. The specific issue of material misstatements due to ineffective controls over collateral register preparations has violated section 55 of the PFMA. This is alarming, especially considering LB's pivotal role in the agricultural sector and the ongoing issue of the bank's unresolved debt default.

14.11. The Committee underscores the urgent need for LB to address these internal control and governance deficiencies to restore stakeholder confidence and ensure the bank's operational effectiveness. Immediate and effective corrective actions are essential to mitigate any adverse impacts and align LB with statutory compliance and operational excellence.

14.12. The Committee acknowledges that the PIC, GPAA, CBDA, and NT have maintained their previous year's audit outcomes. It is concerning that recurring issues with legislative compliance are attributed to unaddressed internal control deficiencies outlined in the action plans of the previous year.

14.13. Specific non-compliances for GPAA and CBDA are rooted in consequence management, while GPAA also faces issues with supply chain management. In the regard, the Committee recommends a thorough review of the procurement and bidding processes within the CBDA and GPAA.

14.14. NT and LB are grappling with material misstatements in their submitted financial statements, and PIC has ongoing challenges in asset management, particularly non-compliance with policies for monitoring external managers, despite efforts to amend previous non-compliances. These persistent issues underscore the need for intensified efforts to rectify and bolster internal controls and compliance mechanisms.

14.15. The Committee urges the management and accounting authorities/officers of LB, PIC, GPAA, CBDA, and NT, as well as the executive authority, to rigorously enforce review and monitoring controls. A meticulous focus on devising and implementing robust audit action plans that directly confront and mitigate the root causes of the noted deficiencies is essential. We advocate for a concerted effort to elevate both the audit outcomes and the quality-of-service delivery in these pivotal institutions.

14.16. Additionally, the Committee emphasizes the urgent need to finalize the Liability Solution for the LB. This expedited resolution is instrumental in ensuring that LB is unhindered and fully equipped to execute its vital performance mandate, contributing effectively to the agricultural and economic sectors.

14.17. The Committee expresses its apprehension regarding NT audit outcome, which has maintained the previous year's qualification with findings pertaining to compliance. This qualification is anchored in the nondisclosure of F&W expenditure connected to the IFMS.

14.18. We acknowledge that no IFMS-related expenditure was incurred in the current year due to ongoing contract renegotiations with Oracle. However, the persistent issue of non-disclosure of comparative F&W expenditure remains a significant concern that underscores the qualification. NT's disagreement with AGSA's position on this matter is noted and viewed with concern. The Committee underscores the importance of transparency and adherence to prescribed financial disclosure norms to uphold accountability and foster public confidence.

14.19. The Committee highlights its visit to NT and SITA for an in-depth on-site examination of the IFMS. Concerns stemming from this inspection are comprehensively detailed in the report submitted to Parliament titled "*Report of Standing Committee on Finance on the Oversight Visit to the National Treasury dated 02 May 2023*" (ATC230503). A follow-up meeting, encompassing representatives from the NT, the Department of Public Service and Administration (DPSA), and SITA was convened on 10 May 2023 to delve deeper into these concerns.

14.20. The IFMS issue has been a persisting concern, leading to an accumulation of over R400 million in fruitless and wasteful (F&W) expenditure. This expenditure has not been disclosed in the 2022/23 financial statements, a decision by NT that has attracted the Committee's attention.

14.21. Additionally, a material irregularity (MI) was issued by AGSA on 13 May 2021 regarding this matter, a stance that has been opposed by NT. The ongoing investigation by the Special Investigating Unit (SIU) is noted by the Committee, including the adverse findings and the initiation of consequence management measures.

14.22. The Committee underscores the critical need for transparency, accountability, and the efficient resolution of this matter to safeguard public funds and restore confidence in the management and utilization of state resources.

14.23. The Committee reaffirms the recommendations articulated in its prior reports, emphasizing the urgent need for the Ministers of Finance and Public Service and Administration to collaboratively devise a resolution to the ongoing issues associated with the IFMS implementation. The protracted delay in implementing the IFMS not only incurs additional fruitless and wasteful expenditure but continues to enforce the government's reliance on outdated legacy systems.

14.24. We acknowledge the briefing provided to the Standing Committee on Public Accounts (SCOPA) on this matter. Still, in the pursuit of thorough scrutiny and informed oversight, the Committee will summon the Special Investigating Unit (SIU) to present its forensic findings in a comprehensive report. This step is deemed crucial to unveil intricate details, insights, and potential actionable measures to address the persistent challenges plaguing the IFMS.

14.25. Furthermore, AGSA is called upon to intensify its monitoring efforts, particularly focusing on the enforcement and effectiveness of consequence management associated with the IFMS during the 2023/24 audit cycle. The Committee underscores the importance of relentless oversight, stringent accountability, and effective mitigation strategies to curb financial losses, enhance system efficiency, and uphold the integrity of public financial management.

14.26. The Committee underscores the need for all institutions, including the National Treasury, to respect and support AGSA's independent role as the supreme audit institution in the country. Any challenges or disagreements should be addressed through constructive dialogue, ensuring that AGSA's authority and responsibilities are not undermined.

NATIONAL TREASURY

14.27. While the Committee commends NT for its achievements, it also notes a decline in performance during the 2022/23 financial year, securing 80.36% (45 out of 56 targets), a drop from 88.34% in the previous year.

14.28. The Committee notes NT's under-expenditure during the 2022/23 fiscal year. It is noted that NT underspent R1.346 billion of its R38.837 billion budget. This underspending is attributed to several factors, including an unfulfilled obligation to fill critical vacancies, accounting for an underspending of R37.9 million.

14.29. Additionally, a sum of R389 million was associated with unspent funds allocated for goods and services. Other constraints, such as budgetary limitations and a high rate of staff turnover, exacerbated the issue, leading to a 16.80% vacancy rate that further impacted overall expenditure. The Committee is keen on obtaining detailed insights and corrective measures planned by NT to address these concerns, ensuring optimal utilization of allocated budgets in the future.

14.30. The Committee expresses its displeasure at the qualified audit opinion arising from the undisclosed fruitless and wasteful expenditure associated with the IFMS. It's noted with concern that NT is challenging the definition of such expenditure. The Committee advocates for amicable resolutions to disputes among government institutions, discouraging legal confrontations in the courts.

14.31. The Committee acknowledges that Programme 1: Administration achieved 60% of its targets, highlighting accomplishments within the ICT service delivery and risk management subprogrammes. However, improvement is needed, especially in financial performance reporting, given NT's qualified audit opinion, and in maximizing the use of the training and development budget. The Committee believes that through specific, actionable strategies and consistent oversight, Programme 1 can elevate its performance to meet and surpass all established objectives.

14.32. The Committee commends Programme 2 for achieving all its targets, a testament to its efficiency. Attention should now be centred on sustaining this exceptional performance and seeking avenues to elevate the quality and influence of its research, legislation, forecasts, and policy analyses. With its current standing, Programme 2 is primed to make substantial contributions to the nation's economic policy, tax, and financial regulation framework, anchored by thorough research and analytical rigor.

14.33. Programme 3 faced hurdles in accomplishing its objectives, with many goals either partially met or unmet. The Committee offers these observations and recommendations:

- Regarding the Township Economic Development Strategies: the nearly met target (4 out of 5 strategies executed) calls for identifying and resolving the obstacles that hindered the fifth strategy's rollout, ensuring all-inclusive economic upliftment in the designated townships.
- Concerning the Cabinet Memos: the 97% achievement rate underscores operational efficacy but also highlights areas to enhance responsiveness and expedite processing to address all memos promptly.
- In the case of Grant Funding: disbursement fell short (R6.465 billion of the anticipated R6.953 billion), signalling a necessity to refine the allocation processes and eliminate any hindrances to guarantee the full disbursement of the earmarked grant funds.
- On Draft Financial Recovery Plans (FRPs): the 0% attainment demands immediate intervention to bolster responsiveness and assist entities needing FRPs, crucial for fiscal equilibrium and efficient service provision. The lag in developing and overseeing FRPs, coupled with the incomplete assignment of technical advisors, can potentially stall the financial recuperation of beleaguered municipalities.

14.34. Programme 4 exhibited notable success in asset and liability management, attaining 92.31% of its objectives but encountered hurdles in a segment of the PFMA applications review. Efforts should now concentrate on bridging this identified gap.

14.35. By employing focused strategies, integrating technology, and maintaining ongoing oversight, Programme 4 is well-positioned to refine its efficacy in managing assets and liabilities, thereby supporting overarching fiscal and economic stability goals.

14.36. Programme 5 demonstrated varied performance, achieving 69.24% of its targets but falling short in certain areas, including the incomplete placement of technical advisors in municipalities and the underdevelopment of the IFMS and e-Recruitment systems.

14.37. The Committee urges NT to pinpoint and rectify obstacles impeding the full execution of the strategic sourcing opportunities plan and refine the process of deploying technical advisors.

14.38. Additionally, NT should identify and address the issues hampering the progression of IFMS and e-Recruitment systems and formulate a detailed action plan to accelerate these pivotal projects.

14.39. Programme 6 has excelled in international financial relations. The Committee recommends elevating the quality and impact of engagements and policy developments. By focusing on continual enhancement, stakeholder collaboration, and adaptive approaches, this programme can strengthen global financial ties, aiding South Africa's economic and developmental goals.

14.40. Programme 7 achieved all its targets for the 2022/23 period, demonstrating effective management of civil and military pensions and other benefits. To maintain this excellence, the focus should be on innovation, technology integration, and improved beneficiary engagement to adapt to emerging challenges and demands, ensuring continued responsive and efficient service delivery.

14.41. Regarding human capital, the Committee observes that NT monitors various indicators, such as workforce diversity, vacancy rates, promotions, and skills development participation. With a notable vacancy rate of 16.80%, the Committee urges NT to enact strategic recruitment efforts, emphasizing filling critical roles to boost operational efficiency and service delivery.

14.42. The Committee has requested that NT shares its employment equity plan and its progress in alignment with the Employment Equity Act (EEA). The Committee noted a lack of clarity in NT's presentation; while it indicated that "black employees" comprised 90%, it did not offer detailed EEA-aligned statistics categorizing the designated groups per the EEA targets. The Committee encourages NT to enhance precision in future reporting and sees potential for increased inclusion of persons with disabilities.

14.43. The Committee expresses deep concern over the efficacy of the Municipal Finance Improvement Program (MFIP), a sentiment echoed and substantiated by AGSA's meticulous analysis. Despite noble intentions, interventions orchestrated by NT and provincial treasuries, even those as stringent as under section 139, have been markedly ineffective in instigating a discernible positive trajectory in audit outcomes, internal control environments, and overall governance within ailing municipalities.

14.44. AGSA's insightful dissection reveals an unnerving stagnancy in financial management and governance reform, a scenario that is not only alarming but also antithetical to the municipalities' cardinal role in effectuating essential services and spurring local economic dynamism.

14.45. To this end, the Committee is poised to request a comprehensive briefing on the MFIP's effectiveness, involving the NT and other relevant stakeholders. In the meantime, NT and provincial treasuries should intensify their support and oversight to municipalities, especially those identified with financial mismanagement.

14.46. The Committee expresses concern regarding South Africa's position on the FATF grey list, recognizing its detrimental effects on international transactions and investments. Grey listing in other jurisdictions is known to lead to increased challenges in international trade and the withdrawal of corresponding banking relationships.

14.47. The Minister of Finance provided insights into the NT's efforts to rectify the deficiencies identified by FATF. While the Committee acknowledges these efforts, there is a shared sentiment that the pace and effectiveness of these initiatives require amplification to mitigate the economic impacts of the grey listing. The Committee requires a full briefing on this from the Minister and NT soon.

SOUTH AFRICAN REVENUE SERVICE

14.48. The Committee commends SARS for its exemplary fiscal discipline, demonstrated by the efficient allocation and utilization of its entire budget for two consecutive years. We acknowledge the ongoing issue of underfunding facing SARS and reiterate our call for the National Treasury to consider augmenting SARS' resources.

14.49. We note and welcome the prior year improvements in SARS' allocations. We believe that further enhancing SARS' funding is essential to empower the agency to effectively execute its mandate and contribute to the country's fiscal health.

14.50. The Committee recognizes and commends SARS for attaining a clean audit, especially considering the organization's vast and intricate structure. This improvement from the prior year is particularly laudable and serves as a testament to SARS' dedication to transparency and efficiency.

14.51. The Committee notes SARS' achievement in collecting a gross revenue of R2.067.8 billion, marking a 9.7% growth from the previous year's R1.884.9 billion. This accomplishment exceeds the initial Printed Estimate targets.

14.52. However, the Committee also notes that SARS fell short by R5.5 billion (0.3%) in attaining the net Revised Estimate of R1.692.2 billion, with the actual net revenue collected amounting to R1.686.7 billion.

14.53. The Committee further observes the rise in refund payments to R381 billion, (R60 billion or 18.7% more than in 2021/22), and the compliance revenue of R231.8 billion, R16 billion or 7.6% more than the previous year. It also notes achievements in customers trade facilitation of R3.93 trillion, marking an 11.87% compound average growth rate.

14.54. The Committee further notes the dynamic shifts in tax contributions. CIT has shown improvement, increasing its contribution to 20.6%, a positive trend compared to previous years. In contrast, PIT's contribution has decreased to 35.7%, while VAT's contribution stands at 25%.

14.55. Collectively, these three categories contribute approximately 81.3% to the total tax revenue, playing a pivotal role in the nation's financial landscape. The analysis and understanding of these fluctuations are crucial to evolving effective tax policies and revenue collection strategies.

14.56. The Committee acknowledges SARS's significant strides in combatting the illicit economy. The robustness of SARS's compliance enforcement mechanisms is underscored by R5.8 billion in customs seizures, R6.7 billion recovered from illicit activities, and a 98.0% conviction rate through the NPA.

14.57. These achievements reflect a heightened focus and effectiveness in addressing non-compliance and illegal activities, contributing to the enhancement of the country's economic security and integrity. The Committee encourages ongoing vigilance and innovation in these efforts to further disrupt and dismantle operations that undermine the country's financial health and security.

14.58. The Committee is closely monitoring SARS's proactive responses to the recommendations of both the Nugent and Zondo Commissions, with a specific focus on tax-related issues. It is noted that 13 cases have reached the National Prosecuting Authority, signalling SARS' commitment to accountability and legal compliance. The Committee mandates quarterly updates from SARS to ensure transparency and progress tracking and is committed to providing Parliament with consistent quarterly reports on the advancement of implementing the Commissions' recommendations.

14.59. The Committee highlights the uplift in satisfaction levels among taxpayers and traders to 75.3%, up from 69.1%. This upswing reflects SARS's efforts in demystifying tax obligations and promoting easier compliance. A 90.3% satisfaction rate among intermediaries and a significant improvement in the public opinion survey score to 76.5%, up from 71.8%, underscore enhanced public confidence and satisfaction.

14.60. To build on this momentum, the Committee recommends intensified initiatives to elevate these satisfaction rates even higher, through enhanced communication, outreach and support mechanisms tailored to meet the diverse needs of taxpayers and traders.

14.61. The Committee appreciates SARS' progressive strides in digital transformation, highlighted by an 89.4% usage rate of digital and self-help platforms. This indicates a significant move towards simplifying and enhancing the tax compliance process. The upward trend in auto assessments acceptance is a testimony to the efficacy and convenience brought about by these digital initiatives.

14.62. SARS's ongoing innovations are pivotal, and the Committee encourages the continual refinement of digital platforms to ensure they are tailored to the users, secure, and streamlined. This will not only optimize the taxpayer experience but also fortify compliance mechanisms.

14.63. The integration of Unstructured Supplementary Service Data (USSD) as an additional service channel is particularly commended. It underscores SARS's commitment to diversifying access points, enhancing convenience, and ensuring that tax services are within easy reach for all taxpayers, including those with limited internet access. The Committee is optimistic that these digital advancements will contribute significantly to a more efficient, accessible, and responsive tax administration system.

14.64. While the Committee commends SARS on its digital advancements, it emphasizes the equal importance of catering to those with limited technological access, means and skills. Earlier concerns were raised about individuals being turned away due to the lack of online appointments.

14.65. The Committee reiterates and stresses the imperative of SARS maintaining its accessibility to every citizen, ensuring that digital innovations do not inadvertently exclude those with limited digital access and literacy. Physical offices, adaptations and support systems should be in place to ensure inclusivity in service provision, bridging the digital divide while enhancing overall service efficiency.

14.66. The Committee takes positive note of the remarkable strides made by SARS in compliance enforcement and service delivery. The precision of SARS's automated risk engines, which accurately identified over 96% of compliance risks, preventing over R70 billion in impermissible refunds, attests to the effectiveness of the agency's risk management systems.

14.67. The Committee further notes the commendable 98% conviction rate achieved through the NPA, underscoring the synergy between enforcement and judicial processes, ensuring that violators face stringent legal consequences. This high conviction rate amplifies the credibility and effectiveness of SARS's enforcement mechanisms, instilling confidence in the integrity of South Africa's tax and customs systems.

14.68. The Committee commends the evident boost in customs enforcement, with seizures increasing to 5,801 valued at R5.8 billion, up from 4,295 seizures at R4.1 billion previously. The surge in customs inspections at ports of entry to 229,121 showcases heightened vigilance. While customs declarations largely hinge on taxpayers' honesty, the Committee emphasizes the pressing need to enhance detection capabilities at all entry and exit points.

14.69. To mitigate physical illicit flows and money laundering, the Committee advocates for the implementation of advanced and comprehensive measures to boost the detection and interception of undeclared currency and contraband.

14.70. Enhancing these controls will not only redeem the nation's international standing but will also affirm our commitment to upholding stringent customs and tax compliance, thereby fostering a secure, compliant, and lawful international trading arena.

14.71. The Committee observes areas requiring attention, particularly in human capital performance, where the 16.8% vacancy rate is concerning. The need for strategic recruitment to fill critical roles is paramount to bolster operational efficiency and service delivery.

14.72. The Committee notes with concerns the non-compliance of SARS with EEA targets at senior management levels and calls upon SARS to prioritise adherence to the EEA, particularly at senior and executive levels, as there seems to be no shortage of African professionals at middle management levels.

14.73. The Committee urges AGSA to conduct a thorough audit of SARS in the 2023/24 cycle, specifically focusing on its adherence to EEA laws. Additionally, the Committee calls on AGSA to perform similar audits on all entities within the finance portfolio. It's imperative that all government entities comply with EE laws and regulations. Non-compliance, especially at senior management levels, would be a violation of legislation.

OFFICE OF THE TAX OMBUDS

14.74. The Committee welcomes the appointment of Ms Yanga Mputa as the new Tax Ombuds and highlights the crucial function of the OTO in providing taxpayers a platform for unresolved issues with SARS.

14.75. Created ten years ago as an independent division within SARS, guided by sections 14 and 16 of the Tax Administration Act, the OTO addresses complaints regarding SARS' service, procedural, and administrative actions in tax law application. Additionally, the OTO can initiate systemic investigations either independently with the Finance Minister's consent, or upon the Minister's request.

14.76. To maintain public trust and eliminate any conflict of interest, the OTO should possess both ample resources and genuine structural and operational autonomy. While the incoming Ombuds confirms that the Office operates independently, without any influence nor interference from the Minister or Commissioner, there's underlying concern about the OTO's structural and financial ties to the entity it monitors.

14.77. In a meeting of the Committee on this issue of OTO independence on 07 June 2022, the National Treasury flagged forthcoming legislation on this topic, anticipating insights from the Zondo Commission recommendations. The Committee stresses that an oversight body's structural and operational dependence on the institution it oversees is problematic.

14.78. The next (7th Parliament) Committee will be urged to contemplate a comprehensive legislative overhaul to ensure the OTO's absolute structural independence.

14.79. For the 2022/23 fiscal year, the OTO was allocated a budget of R51,424 million. The year-end saw an expenditure of R48,242 million, resulting in an underspend of R3.1 million.

14.80. This savings mainly arose from delays in deploying the digital communications framework, especially concerning Microsoft D365 and collaboration with Microsoft for the tenant element. Such delays highlight the critical role of punctual technological rollouts in budgetary planning.

14.81. The Committee observes that many complaints to the OTO are dismissed, mainly due to procedural reasons, indicating taxpayers aren't fully utilizing or are frustrated by SARS's complaint processes. To enhance efficiency, the Committee suggests increasing public awareness campaigns, emphasizing the importance of exhausting SARS's avenues before lodging complaints with the OTO.

14.82. Data from 2022/23 shows that of 4000+ complaints to the Tax Ombuds, only 1,697 (42.85%) were pursued further; the rest were rejected (44%) or terminated (13.08%), highlighting the necessity for clearer public guidance and outreach. The discernment shown in complaint evaluation, with 42.85% accepted for investigation, indicates a rigorous vetting mechanism that ensures only valid grievances proceed.

14.83. The Committee commends the OTO for its remarkable efficiency in processing complaints, as evidenced by the 95% capture and acknowledgment rate within two business days.

14.84. While the quick resolution of 26.16% of complaints within 15 business days is commendable, the Committee notes the extended timelines for the 73.8% of complaints, recognizing that some matters require comprehensive examination due to their complexity.

14.85. Recognizing the importance of time-bound resolutions, the Committee recommends periodic reviews to assess and potentially expedite complex cases, ensuring a balance between thoroughness and timeliness.

14.86. The Committee applauds the nearly unanimous acceptance of the OTO's recommendations by SARS (at 99%), reflecting, at the moment, strong inter-agency cooperation. However, the non-binding nature of these recommendations, which are adopted at the Commissioner's discretion, raises questions. The Committee believes that when legislation is introduced to overhaul the OTO framework, consideration should be given to making the OTO's rulings binding, subject only to judicial review.

14.87. The OTO's impactful interventions, resulting in R103 million in refunds for the foremost cases, highlight the tangible benefits for taxpayers. These steps enhance tax administration, improve service delivery, and emphasize the significance of taxpayer rights and just treatment.

14.88. The Committee commends the OTO for ruling in favour of taxpayers in 80% of cases. However, it raises concerns that over 80% of the OTO's investigations reveal errors in SARS' decisions. Such a high error rate brings into question the reliability of SARS's initial judgments and their complaint resolution procedures.

14.89. SARS's decisions can have significant financial implications, and some of its practices, such as the "pay first, challenge later" policy, might unintentionally place financial burdens on individuals and businesses in instances where SARS' is wrong. Recognizing the gravity of these concerns, the Committee recommends a thorough review by the OTO to understand the effects of these erroneous decisions on taxpayers. Furthermore, the Committee believes there should be accountability and consequences for employees consistently making mistakes.

14.90. The Committee acknowledges the OTO's use of community radios for outreach activities because of budget constraints preventing the use of major commercial media outlets. The Committee feels that the OTO should receive adequate funding to utilize commercial radio and television for a broader outreach.

14.91. Additionally, the Committee suggests that the OTO amplify its public awareness efforts and enhance its online visibility, aiming for a larger audience and a better-informed taxpayer community.

Having considered the annual reports of the National Treasury (NT), the South African Revenue Service (SARS) and the Tax Ombudsperson (TO) for the 2022/23 financial year, the Committee asks the National Assembly to adopt this 2023 Budgetary Review and Recommendation Report.

The Democratic Alliance (DA) reserves its position.

Report to be considered.