Media release

MTBPS 2022: SARS continues to GRAP(ple) with ensuring legislative compliance

Johannesburg, 25 October 2022 - In April 2012, the Accounting Standards Board approved the adoption of Generally Recognised Accounting Practice (GRAP) Standards to replace the Modified Cash Basis of Accounting (MCB) in the public sector. For over a decade, despite SARS noting its intention 'to expedite the migration of SARS' revenue accounting practices to [GRAP] to ensure legislative compliance', there still has been no implementation. Or has there been?

By way of background, section 40(1)(b) of the Public Finance Management Act, No. 1 of 1999, provides that the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with GRAP. Interestingly though, "government components" which apply the MCB were granted an exemption from section 40(1)(b) for a period of five years, with effect from 8 April 2021. The effect thereof is that SARS, amongst other government components, has until 8 April 2026 to adopt the GRAP. Sounds simple enough, right? Well, not really. Specifically not if one has regard to the SARS 2020/21 Annual Report (Annual Report).

According to this Annual Report, SARS' financial reporting activity is divided into *Revenue Accounts* (those that report on assets, liabilities, and revenue that are controlled by National Government and are managed by SARS on its behalf) and *Own Accounts* (those that report on assets, liabilities, revenue, and expenses associated with the administration and collection of taxes and duties. It is understood that these activities are mainly funded by transfers from National Treasury). Simplistically, the revenue in respect of Revenue Accounts comprises all the taxes, levies, duties, fees, and other monies collected by SARS during the year (i.e. taxpayer money) while the operating expenditure for Revenue Accounts is provided for in the Own Accounts budget. This distinction is important for the next part of this article.

According to the Annual Report, the Annual Financial Statements for SARS' *Own Accounts* were prepared in accordance with the effective Standards of GRAP. The Annual Report goes on further to clarify that:

> *The Accounting Authority presents this report that forms part of the Annual Financial Statements of SARS Finance Own Accounts for the year ended 31 March 2021. Where applicable, specific reference has been made to Administered Revenue Accounts, otherwise* ***all other statistics quoted in this report are solely for the Own Accounts***.

It is interesting to note that the Auditor-General report for the SARS Revenue Accounts was a clean audit report (unqualified with no findings), while for SARS Own Accounts - an unqualified audit report with findings. What is unclear from this Annual Report, however, is whether the SARS Revenue Accounts were also prepared in accordance with GRAP or the MCB. In fact, one could argue that support for the contention that the Revenue Accounts were prepared in accordance with the latter accounting standard (i.e. MCB) may be found in the Audit and Risk Committee report[1], which states the Committee was unable to:

> *… raise issues of impact on the organisational performance and the overall internal control environment as well as future financial reporting* ***due to the lack of funding to implement the required imminent Accounting Standards (GRAP)****.*

As an aside, SAICA has raised concerns regarding how the current MCB has clearly created many bad and unlawful habits ranging from SARS tax refund disclosures to how unauthorised expenditure is accounted for. The delay in the adoption of GRAP has contributed to various dubious practices by the government including “hiding” unauthorised expenditure by just not paying it which the MCB allows departments and organs to do. It also allows SARS to “adjust” refunds by dubious administrative practices, including in disputes as already alluded to by then Minister Pravin Gordhan.

Based on the above, it is concerning that SARS is continuously afforded the opportunity to delay the implementation of GRAP with cash accounting that incentivises delaying tactics for cash already under SARS’ control. In addition to this and as intimated by the Audit and Risk Committee, SARS has insufficient funds for the implementation of GRAP, thereby, inhibiting its ability to successfully fulfil its mandate. SAICA has laboured the point that research has shown that improving the delivery of a Revenue Authority’s services will in turn improve the taxpayer’s experience and ultimately their compliance. SAICA has seen an increase in taxpayer dissatisfaction with SARS’ services as is evidenced by the number of operational queries received from our members as well as the lengthy agenda of the SARS/Recognised Controlling Body National Operations meeting. Given the draconian powers SARS are vested with, that significantly but legally limit taxpayers’ constitutional rights, a higher standard of oversight should be exercised over SARS. Unfortunately, as documented in the Nugent Commission and various other reports including the Budget Review and Tax Ombud reports, this oversight has been lacking and it has become a challenge in elevating such oversight and intervention to a level that is appropriate.

Conclusion

Considering the dubious practices resulting from the non-implementation of GRAP by SARS (and the whole public sector), it is imperative for taxpayers to be made aware of National Treasury’s progress in this regard, if any. Most importantly, section 216(2) of the Constitution states that the National Treasury must enforce compliance with the measures established in terms of subsection 216(1) of the Constitution – which includes the implementation of GRAP and enforcing sound treasury control measures – and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

It is SAICA’s hope that Minister of Finance will, in the MTBPS, provide guidance on what is a critical part of improving accountability and enhancing financial reporting. Further investment in SARS is critical, as it is responsible for the revenue collection that funds government expenditure. Priority should be given to providing it with the funds that it requires to function optimally.

[1] Page 86 of the Annual Report

About SAICA

The South African Institute of Chartered Accountants (SAICA), South Africa's pre-eminent accountancy body, is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 50 000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting technicians (ATs[SA]), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation's highly dynamic business sector and economic development.

Chartered Accountants are highly valued for their versatile skill set and creative lateral thinking, that's why all of the top 100 Global Brands employ Chartered Accountants.

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