BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE STANDING COMMITTEE ON FINANCE, DATED 29 OCTOBER 2024

The Standing Committee on Finance (SCoF/the Committee), having considered the performance report and audited financial statements of the National Treasury (NT) and the South African Revenue Service (SARS) for the 2023/24 financial year, as part of the Budgetary Review and Recommendations Report (BRRR) process under Section 5 of the *Money Bills and Related Matters Act (2009)*, reports as follows:

INTRODUCTION

1.1. On 16 October 2024, the Director-General, Dr. D Pieterse and senior staff of the National Treasury appeared before the Standing Committee of Finance to present their annual reports and audited financial statementsfor 2023/24. The Minister of Finance, Mr Enoch Godongwana, Deputy Ministers Dr D Masondo and Mr A Sarupen, sent apologies as they were attending Cabinet, Cabinet Committee meeting and SCOPA respectively.

1.2. On 22 October 2023, the South African Revenue Service, led by the Deputy Minister of Finance, Mr A Sarupen, SARS Commissioner Mr Edward Kieswetter, and senior staff of SARS, appeared before the Standing Committee of Finance to present their annual reports and audited financial statements for 2023/24.

1.3. 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.

POLITICAL OVERVIEW

2.1. This political overview provided by Minister of Finance Enoch Godongwana, is drawn from the 2023/24 Annual Reports of the National Treasury and SARS. In the foreword to these reports, the Minister highlights disciplined policy adherence, reform momentum, and progress in critical areas amid a challenging economic climate. Despite ongoing energy shortages and infrastructure delays, the South African economy showed resilience, achieving 0.6% growth, with NT's efforts focusing on transparency, accountability, and pro-growth strategies.

2.2. The Minister noted that key structural reforms targeted the energy and logistics sectors and public-sector efficiency, aiming to boost GDP, create jobs, and reduce poverty. NT maintained fiscal discipline by utilizing 99.2% of its R34.35 billion budget while effectively controlling expenditure to prioritize social protection, education, healthcare, and capital investment. Treasury’s performance, recognized by an unqualified audit with no material findings, reflected strong governance. Fiscal policy milestones included the advancement of Operation Vulindlela, which addressed digital spectrum, energy project approvals, and water license processing to break down economic barriers. Treasury also initiated tax incentives for renewable energy adoption and introduced a grant for smart electricity meters to improve municipal energy efficiency, complementing Eskom's debt relief initiatives.

2.3. In the financial sector, Treasury focused on anti-money laundering measures to address grey-listing requirements, showing its dedication to financial stability and integrity. Treasury also prioritized local economic development through the neighbourhood development program and continued to strengthen municipal financial management via a redesigned municipal finance improvement program.

2.4. Internationally, South Africa reinforced its role in global economic collaboration by hosting the BRICS summit, which supported cooperative development among emerging markets.

2.5. Minister Godongwana also emphasized the role of SARS in mobilizing domestic resources to support South Africa’s fiscal independence. Since its establishment in 1997, SARS has raised R21.5 trillion, contributing over 90% of the national budget and supporting the state’s capacity to deliver services. For 2023/24, SARS collected R2.155 trillion in gross revenue, netting R1.741 trillion after refunds, and exceeded projections through robust compliance programs. SARS’s modernization initiatives, outlined in the Digital Playbook, aim to build an integrated, data-driven tax and customs platform through AI, digital identities, and collaboration with government agencies.

2.6. Looking forward, Minister Godongwana anticipates that the 7th Administration’s initiatives will further strengthen fiscal sustainability and ethical governance.

OVERVIEW OF NATIONAL TREASURY PERFORMANCE

3.1. The National Treasury is responsible for managing South Africa's national finances, a mandate based on Chapter 2 of the Public Finance Management Act and Chapter 13 of the Constitution, particularly Section 216(1), which mandates NT to ensure transparency, accountability, and sound financial controls. The PFMA provides the structural framework, outlining guidelines for efficient and responsible financial governance across all government levels, while the Municipal Finance Management Act (MFMA) reinforces NT's role in municipal financial management by establishing regulatory guidance over municipal budgeting, spending, and reporting.

3.2. The MFMA assigns NT a critical oversight function, including monitoring municipal budget adherence, spending practices, and debt levels to ensure fiscal discipline. Under Chapter 12 of the MFMA, NT is also tasked with strengthening municipal financial management capacity by providing training, technical assistance, and systems like the Integrated Financial Management System (IFMS). NT's monitoring role helps prevent unsustainable debt levels and fosters improved governance standards and fiscal accountability at the local government level.

3.3. NT also has authority under Chapter 13, Section 139 of the MFMA to intervene in financially distressed municipalities by implementing Financial Recovery Plans (FRPs) aimed at restoring fiscal health and service delivery. It oversees municipal borrowing and investment practices (Chapter 6, Section 46), ensuring these align with long-term sustainability goals. Together, these roles, defined by the PFMA, MFMA, and constitutional provisions, form a governance framework that promotes national fiscal stability and local accountability, strengthening public trust in South Africa's financial governance system.

3.4. NT's 2023/24 Annual Performance Report highlights a mix of achievements and challenges across its programmes. The report underscores a generally positive performance, with specific areas of improvement required in several programmes.

3.5. Programme 1: Administration achieved 100% of its non-financial targets, showcasing strong internal management and governance. Notably, the Treasury exceeded its ICT service delivery standard by achieving a 94% compliance rate, above the 93% target. Additionally, risk management reached level 5 maturity, indicating a robust control environment.

3.6. Furthermore, training and development surpassed expectations, with a 96% spend on this area, against a planned 70%, showing commitment to workforce development. The Administration programme had a projected expenditure of R609.9 million but concluded with an actual spend of R486.2 million, leading to a notable variance of R123.7 million. This represents only 80% of the budgeted amount.

3.7. Programme 2: Economic Policy, Tax, and Research also met all its targets, demonstrating progress in policy formulation and economic research. Treasury produced 30 research papers and nine macro/microeconomic reports, exceeding its target of eight. In addition, financial and tax legislation was successfully submitted to Parliament, a key achievement that aligns with Treasury's legislative obligations. Financially, this programme utilized 92% of its allocated R138.4 million, recording avariance of R10.9 million with an actual expenditure of R127.5 million.

3.8. Programme 3: Public Finance and Budget Management showed mixed results, achieving 66.67% of its targets. The Treasury disbursed R7.19 billion in grant funding, falling slightly short of the R7.35 billion target. However, it excelled in infrastructure oversight by assessing 100% of infrastructure plans and approving 40 catalytic projects, exceeding the target of 35. Some variances were recorded, primarily due to the under-disbursement of funds related to the Common Monetary Area and delays in certain project rollouts, which impacted overall expenditure. The programme demonstrated close adherence to budget, achieving 99% utilization by spending R3.98 billion against its R4.00 billion target, yielding a minor variance of R26.1 million.

3.9. Programme 4: Asset and Liability Management successfully achieved 100% of its targets, reflecting effective fiscal stability and efficient management of the public debt portfolio. The programme conducted timely reviews of corporate plans from public entities and met the annual gross borrowing requirement, reinforcing its role in safeguarding South Africa's financial health. Budget utilization was efficiently managed, with expenditures aligning well with allocated resources, which contributed to maintaining fiscal stability within the set budget framework. This programme reached full budget compliance, spending R656.4 million against a projected R657.7 million, with only a slight variance of R1.3 million.

3.10. Programme 5: Financial Accounting and Supply Chain Management Systems presented a more challenging performance, meeting only 54.55% of its targets. Key targets, such as the implementation of the e-Recruitment module and the Integrated Financial Management System, encountered delays. However, the programme achieved some of its supply chain and financial reporting goals, including successful production of transversal term contracts. In Financial

Accounting and SCM Systems, NT spent R754.9 million of an R821.6 million budget, achieving 92% budget utilization with a variance of R66.7 million.

3.11. Programme 6: Civil and Military Pensions, Contributions to Funds, and Other Benefits achieved 100% of its targets, ensuring that pension and benefit payments were processed efficiently and on time. Financially, this programme adhered closely to its budget, demonstrating efficient financial planning in maintaining these essential services for civil and military personnel.Civil and Military Pensions, Contributions to Funds maintained precise budget compliance, spending R6.66 billion with only a minimal variance of R73. This programme achieved 100% budget utilization.

3.12. Programme 7: International Financial Relations achieved all its targets, strengthening South Africa's position in international financial forums such as the BRICS, IMF and World Bank. Additionally, it effectively managed the Southern African Customs Union (SACU) revenue distribution, reinforcing fiscal cooperation with regional partners. Financial allocations were used effectively to support international relations, with funds allocated toward dues and multilateral contributions utilized as per planned budget requirements.International Financial Relations nearly achieved its budget goal, with an expenditure of R2.71 billion out of a R2.75 billion allocation, leaving a variance of R46.5 million and achieving 98% compliance.

3.13. Revenue Administration and Financial Intelligence and State Security both attained full budget adherence, each spending R13.28 billion and R5.42 billion, respectively, achieving 100% of their allocated budgets with no variance.

3.14. In terms of overall financial performance, the National Treasury allocated a total budget of R34.35 billion for the year, spending R34.075 billion, resulting in an underspend of R275 million (1%). Major variances included a R3.5 million underspend in employee compensation due to a high vacancy rate, R129.4 million underspend in goods and services, impacted by procurement delays, and R100.3 million underspend in capital assets due to ICT procurement lags. Transfers and subsidies also experienced a shortfall of R36.8 million, influenced by fewer-than-expected payments in the Common Monetary Area and savings from favourable foreign exchange rates.

3.15. In the economic classification breakdown, Compensation of Employees saw an expenditure of R905.6 million against a budget of R909.1 million, marking an underspend of R3.5 million and achieving 100% of the allocation. Goods and Services spending was slightly below budget at R1.31 billion, compared to an allocation of R1.44 billion, resulting in a variance of R129.4 million and an expenditure rate of 91%.

3.16. The Transfers and Subsidies category recorded near-complete budget alignment, with R29.89 billion spent from the R29.93 billion budget, yielding a small variance of R36.8 million. Payment of Capital Assets encountered a significant underspend, utilizing only R18.1 million out of a R118.4 million budget, which translates to 15% of the projected amount, indicating possible delays or adjustments in capital expenditure. Finally, Payment of Financial Assets reached full budget utilization, with a spend of R1.95 billion out of R1.96 billion, achieving 100% compliance.

3.17. Key Challenges impacting Treasury's performance included ongoing delays with the IFMS implementation, which has faced longstanding procurement and operational issues. Additionally, high levels of municipal debt to Eskom and water boards (approximately R80 billion to Eskom and R10 billion to water boards) have constrained local governments, posing risks to essential service delivery and Treasury's own financial management efforts. Treasury's recruitment challenges have also affected program efficiency, although efforts are being made to expedite hiring and align human resources with program needs.

3.18. National Treasury maintained a vacancy rate of 15.93%, with a total workforce of 1,082 employees, inclusive of both fixed-term and additional appointments. Within this complement, 90% of the staff are Black, 57% are female, and 0.83% are individuals with disabilities. The department achieved a significant milestone in workforce development, with 54% of employees participating in skills development and leadership programmes. In addition, 47 employees received promotions over the course of the year, reflecting NT's commitment to internal career growth.

3.19. Senior Management Service compliance was also a priority; 96% of SMS members signed performance agreements. Those who failed to do so were issued letters of intent regarding disciplinary action and will be ineligible for performance rewards, underscoring NT's dedication to performance accountability at senior levels.

3.20. The vacancy rate has been influenced by several factors, including the reprioritisation of service delivery needs and delays in recruitment processes. Additionally, NT adhered to a DPSA directive aimed at controlling the filling of vacant positions to support fiscal sustainability. NT adopted a strategic approach to workforce management by rotating employees and appointing them to act in higher roles, which broadened their skill sets and reinforced the management pipeline. However, the requirement for a minimum level of experience for entry into senior management positions posed challenges, especially since NT competes with the finance sector, affecting its ability to attract seasoned professionals for these roles.

OVERVIEW OF THE SOUTH AFRICAN REVENUE SERVICE PERFORMANCE

4.1. SARS's mandate is to contribute to the economic and social development of the country by collecting all taxes, duties and levies due to fund the South African government's public service programmes and priorities. Its objective is the efficient and effective collection of revenue and control over the import, export, manufacture, movement, storage, or use of certain goods.

4.2. During the 2023/24 financial year, SARS reported progress toward its vision of becoming a modern, digitally enabled revenue authority, even amid economic challenges, complex tax environments, and limited budgetary resources. Key accomplishments include the successful pursuit of several strategic objectives.

4.3. The degree of achievement across SARS's nine strategic objectives showed that 71% of the targets were fully met, with 25% partially achieved, and only 4% not reached.

4.4. In the 2023/24 fiscal year, SARS achieved notable successes in fulfilling its mandate objectives, notably in revenue collection and trade facilitation, while it partially met targets related to compliance levels. The agency recorded a 100.55% achievement in revenue collection, surpassing its target. This year, SARS collected a record gross amount of R2.1548 trillion, marking a 4.2% year-on-year growth, and achieved a net collection of R1.7409 trillion, which was 3.21% higher than the previous year. This accomplishment resulted in a surplus of R9.52 billion over the Revised Estimate.

4.5. SARS paid out R413.9 billion in refunds to taxpayers, reflecting an 8.6% increase year-on-year. The tax-to-GDP ratio has steadily increased over the past four years, rising from 22.3% in 2020/21 to 24.5% in 2023/24, indicating a stable and improving tax base relative to the economy. The cost-to-revenue ratio for the year stood at 0.71%, remaining well below the 1.00% benchmark for developing economies.

4.6. SARS's compliance programme yielded substantial results, generating R260.5 billion in compliance revenue—a 25.5% increase from the previous year. This revenue emerged from targeted compliance activities, such as the Voluntary Disclosure Programme, designed to foster a culture of trust and regularize tax obligations. Enforced compliance efforts proved significant, adding approximately R91 billion through over 2 million resolved debt cases supported by machine learning models, R95 billion from 1.9 million tax verifications identified via AI-driven risk profiling models, and R41 billion from 230,000 tax and customs compliance audits. SARS's efforts against syndicated crime yielded R20 billion from 150 complex investigations, while general compliance work contributed another R13 billion.

4.7. Despite these successes, SARS partially achieved its voluntary compliance target, with an overall compliance level of 63.63% against a planned target of 66.61%. The deviation was primarily due to underperformance in filing and payment compliance across major tax types, partly attributed to SARS's inability to follow up on a growing inventory of outstanding returns. Many taxpayers indicated that financial hardship prevented them from meeting their tax obligations, despite acknowledging the debt. SARS's continuous compliance efforts, however, have shown progress, with a 2.02 percentage point increase in compliance levels from the prior year. The agency said it is committed to improving its debt collection and outstanding returns processing capacity through a combination of insourcing and outsourcing strategies, which it anticipates will enhance compliance in future fiscal years.

4.8. SARS reported that it achieved substantial progress in trade facilitation, surpassing its target with a Trade Facilitation Index (TFI) score of 71.6%, well above the target of 54.8%. This marked the first year SARS measured this indicator against an established baseline, setting a new standard for future assessments of its trade facilitation performance. Key components of the TFI included outstanding performances in "formalities: automation" (87%), "formalities: documents" (76%), and "information availability" (76%), all of which contributed significantly to the overall index score. Throughout the year, SARS conducted a mid-year review to assess its progress, refine its methods for engaging stakeholders, and enhance information accessibility. This strategic approach led to a 69% mid-year survey score, indicating positive development throughout the year as SARS worked to address trader concerns and improve service delivery.

4.9. Notably, SARS observed that traders with more industry experience reported higher satisfaction levels, which positively influenced the overall TFI score. This feedback underscores the importance of SARS's efforts to create a more streamlined and user-friendly experience for its stakeholders in the trade industry. Looking forward, SARS will continue to monitor the effectiveness of the TFI, implement improvements where needed, and respond proactively to feedback, ensuring the agency's trade facilitation measures are aligned with industry expectations and contribute to a more efficient trade ecosystem. Below is SARS overview of key achievements and metrics across each of its nine Strategic Objectives (SO1-9).

SO1: Clarity and Certainty for Taxpayers and Traders

4.10. SARS aimed to improve transparency and ease of understanding for taxpayers and traders. It delivered notable results, with 190 Authorized Economic Operator (AEO) accreditations—exceeding the target of 128—and issued 885 rulings and opinions to facilitate clarity. The interactive "Chatbot Lwazi" was instrumental, providing 1.19 million positive responses, while SARS held 215 community workshops to educate stakeholders. Additionally, a new legislative framework for advance-pricing agreements was incorporated in the 2023 Tax Administration Laws Amendment Bill. However, only 66.86% of surveyed stakeholders were satisfied with SARS's clarity and certainty efforts, falling short of the 77% target.

SO2: Ease of Compliance

4.11. A key strategic focus was on enabling digital and seamless taxpayer engagement. SARS achieved 97.33% auto-assessments for standard taxpayers, surpassing its target of 93%. In addition, 88.5% of taxpayers and traders used digital platforms for interactions. SARS processed millions of customs declarations and proactively utilized targeted communications to encourage digital engagement. In total, SARS managed over 20 million service-related interactions across its branches and self-service platforms, significantly reducing in-person engagements.

SO3: Making Non-Compliance Hard and Costly

4.12. SARS continued its rigorous enforcement efforts, achieving a 98.10% risk detection rate and a 95.29% prosecution success rate with the NPA. Compliance interventions yielded significant results, including the identification of R47.7 billion in non-compliant revenue, the seizure of R6.68 billion in contraband goods, and the successful recovery of R20.1 billion from criminal activities. SARS also resolved 14,094 appeals, achieving a 97% resolution rate through Alternative Dispute Resolution.

SO4: Building a High-Performing, Diverse, and Engaged Workforce

4.13. SARS focused on strengthening its internal workforce by achieving a racial equity target of 81.56% and implementing the SARS Career Progression Framework. It also saw improvements in disability representation (2.21%) and gender representation (50.75%). Employee engagement was high, with initiatives like 6,994 on-the-spot awards and 158 annual recognition awards. SARS is committed to continuous learning, as demonstrated by the establishment of a Junior Board and the Women in Leadership program.

SO5: Data-Driven Insights and Integrity

4.14. SARS successfully leveraged data analytics, achieving 100% utilization of automated risk assessment for standard audits and 82.8% for complex cases, yielding R62 billion in recovered revenue. SARS's data capabilities include a suite of 20 machine learning models, which further optimized compliance verification processes. The Automated Exchange of Information (AEOI) system played a key role in detecting offshore tax risks, reflecting SARS's strong emphasis on data integration and integrity.

SO6: Digital Transformation and Streamlined Services

4.15. SARS maintained 99.7% systems availability rate with zero security breaches from known risks, underscoring the reliability of its digital infrastructure. The agency's modernization efforts won SARS a BCX Digital Innovation Award in 2023 for Auto Assessments and recognition at the Global Customs Innovation Awards for innovative customs technology, including a Customs Risk Engine and the use of blockchain for customs bonds.

SO7: Resource Stewardship and Operational Excellence

4.16. SARS achieved a deviation of only 3.01% from its budgeted allocation, well within the 5% target. SARS received a clean audit report for 2023/24, reflecting strong governance in resource utilization. Total expenditure reached R12.85 billion, with R370.8 million earmarked for IT investments. Additionally, an in-year allocation adjustment by the Minister allowed SARS to generate R7.5 billion in collections, prevent R6.9 billion in non-permissible refunds, and yield R5.2 billion in assessments, enhancing SARS's financial stewardship.

SO8: Stakeholder Collaboration

4.17. SARS prioritized cooperative relationships, achieving an 82.86% satisfaction rate from intermediaries, exceeding the target of 73%. Engaging extensively with stakeholders, SARS participated actively in OECD, WCO, ATAF, and SACU events, and contributed to the FATF program, supporting transparency in international tax obligations. The agency strengthened partnerships through updated Memorandums of Understanding (MOUs) and engaged with various industry associations to improve voluntary compliance.

SO9: Building Public Trust and Confidence

4.18. SARS focused on maintaining public trust with an improved public opinion survey score of 77.53%, surpassing the 76% target. While the Service Charter performance score reached 81.33%, it fell short of the 85% target. SARS's commitment to enhancing operational efficiency and integrity contributed to its status as a trusted institution, as reflected in high public confidence in its fair and transparent tax administration.

4.19. Over the past decade, SARS has operated within a constrained funding environment. From the 2014/15 to 2023/24 fiscal period, SARS's grant allocation saw only a marginal increase with a compound annual growth rate (CAGR) of 3.5%, while tax revenues displayed a robust CAGR of 6.7%. This growth in tax revenues outpaced the Consumer Price Index (CPI), which grew by 5%, and nominal GDP, which expanded at a rate of 6%.

4.20. Despite the gradual increase in allocated funds, SARS's budget only grew by a CAGR of 3.46% during this period. As a result, operational adjustments have been necessary to manage financial constraints. Personnel costs grew at a CAGR of 3.57%, but the overall headcount decreased by approximately 1.6% annually, amounting to an overall reduction of roughly 20% from the 2011/12 baseline figure of 15,726 employees.

4.21. Operating expenditure (OPEX) rose modestly at 1.06% CAGR, and capital expenditure (CAPEX) declined by a significant -5.6%, underscoring the tightening budget conditions that limited SARS's capacity for modernization investments and resource expansion.

4.22. Looking forward, SARS has identified a critical funding requirement to address these challenges. A baseline adjustment of R17-R20 billion is needed over the Medium-Term Expenditure Framework (MTEF) to adequately support SARS's operational goals. Additionally, an annual allocation of approximately R1 billion is required for short-term revenue recovery initiatives to ensure sustained compliance and revenue collection.

4.23. Beyond these immediate needs, SARS estimates that an additional R3 billion over the MTEF is essential for furthering its modernization efforts, which would enhance digital capabilities and streamline tax administration processes. Without these funds, SARS's capacity to maintain high levels of service and compliance is at risk, necessitating a focused approach to securing the necessary budget adjustments.

4.24. SARS gave the Committee its mid-year update on SARS's 2024/25 performance**,** providing some insights into its revenue, trade, and operational performance across key programs, as well as specific updates on new initiatives like the Two-Pot Retirement Withdrawal system.

Revenue Performance (2024/25 Half-Year Update)

4.25. For the first half of the 2024/25 fiscal year, SARS recorded revenue collection of R42 billion year-on-year (Y/Y) growth, a 5.2% increase. However, revenue collection fell short of the Printed Estimate by 2.4%, or R20.5 billion. The primary revenue shortfall was driven by lagging collections from Import VAT, PAYE, and the Fuel Levy, though these were partially offset by positive collections in Corporate Income Tax (CIT) and Domestic VAT. Notably, the Compliance Revenue Programme contributed R106 billion, representing a 3.9% Y/Y increase. Sectoral performance displayed gains in Finance, Community, and Electricity sectors, though Mining contracted. Notably, PAYE collections were constrained due to slower-than-anticipated growth from employers in the Finance sector. In Fuel Levy collections, a decline of 1,330 million litres year-over-year (Y/Y) was observed, with diesel and petrol down by 12.4% and 8.3%, respectively. Encouragingly, Domestic VAT saw growth in standard-rated sales, suggesting modest economic improvement influencing consumer spending.

Trade Statistics (2024/25 Half-Year Update)

4.26. The global trade environment showed slight recovery in 2024, with world merchandise trade growing by 1.4% Y/Y. Despite this, South Africa's trade flows faced pressures, decreasing by R39.2 billion (a 2% Y/Y decline). Imports fell sharply by R36.2 billion (-3.7%), largely due to a reduction in refined petroleum, electrical transformers, OEM components, and vehicles. Exports dropped marginally by R3 billion, with declines mainly in automotive, platinum group metals, iron ore, coal, and diamonds. Lower importation levels reflected negatively on trade tax collections, pointing to continued economic strain.

Two-Pot Retirement Withdrawals

4.27. SARS introduced the Two-Pot system, receiving 1.487 million applications for tax directives, of which 1.399 million were approved (95%), 50,000 declined (3%), and 25,000 cancelled by Fund Administrators. The system approved gross lump-sum payments of R25.4 billion, with R6.1

billion in tax payable. Compliance enforcement resulted in IT 88 orders for 104,000 non-compliant taxpayers, totalling R670 million in outstanding debt. Additionally, SARS emphasized enhancing ease and clarity of services by developing an online, data-driven platform, facilitating swift directive processing and enabling taxpayer support through outreach campaigns and tools like the SARS Withdrawal Self Help Calculator, used 778,000 times (including 54,000 uses through WhatsApp).

Tax Filing Season 2024

4.28. During the 2024 PIT filing season, from June 30 to October 21, approximately 7.6 million taxpayers filed their returns. Out of these, 5 million were auto assessed, achieving an acceptance rate of 98%. Around 2 million taxpayers used digital platforms for filing, while 600,000 visited Service Centres. Efficiency improvements were evident, with 90% of assessments issued within five seconds. A significant R28 billion in refunds was distributed to 2.9 million taxpayers, with 71% of refunds processed within 72 hours. SARS engaged over 2.2 million taxpayers through various service channels, reflecting strong support across in-person, phone, and virtual interactions.

4.29. SARS reported to the Committee that it faces multiple challenges that significantly impact its ability to fulfil its mandate. One critical issue is the erosion of social cohesion and public trust, driven by widespread crime, corruption, and organized cross-border syndicates. It said that this environment makes it increasingly difficult for SARS to encourage voluntary compliance among taxpayers, weakening the overall tax culture. Without a strong foundation of social trust, efforts to build compliant taxpayer behaviour become more challenging, undermining the administration's effectiveness.

4.30. Another pressing issue for SARS is the widening tax gap, as it faces difficulties in identifying and enforcing compliance in complex areas like illicit trade, high-income individuals, and large multinational businesses. This growing gap is compounded by SARS's budget limitations, which have not kept pace with GDP growth or inflation. As a result, SARS struggles to hire and retain skilled staff, maintain up-to-date technology, and implement essential modernizations. Customs and excise divisions have experienced staffing reductions, despite a 90% increase in trade value and a 33% increase in declarations over the last decade. This shortfall in resources has strained SARS's ability to manage inspections, ensure efficient trade facilitation, and uphold compliance.

4.31. Further challenges include a scarcity of critical skills in areas such as data science, technology, and customs enforcement. The public sector's competitive recruitment landscape makes it difficult for SARS to secure and retain these essential talents. Meanwhile, rapid technological advancements, including developments in AI and data analytics, demand ongoing investments in modernized systems to address sophisticated non-compliance tactics effectively. Administrative and operational constraints also plague SARS, with a growing backlog of unaddressed tax returns and debt collections, coupled with limited funding that hampers long-term planning. These cumulative obstacles restrict SARS's capacity to enforce tax compliance, combat illicit activities, and deliver quality taxpayer services, ultimately widening the tax gap and affecting South Africa's fiscal stability.

4.32. As of March 31, 2024, SARS's tax account reconciliation reveals a significant gap between the estimated tax liability and actual collections. The estimated true tax liability for the period was calculated at R2.541 trillion. Of this amount, R1.480 trillion was collected voluntarily and in a timely manner, representing 58% of the total estimated liability. Through its compliance programs and administrative actions, SARS collected an additional R261 billion, accounting for 10% of the estimated tax liability and contributing 15% to the total net recovery.

4.33. However, despite these efforts, a net tax gap of approximately R800 billion persists, equating to 32% of the estimated liability that remains uncollected. The gross tax gap, including known under-recoveries, stands at R1.061 trillion, or 42% of the total estimated liability. Research and data indicate that between R710 billion and R800 billion in tax revenues remain unrecovered, underscoring the need for continued and enhanced compliance efforts to close this substantial shortfall. This under-collection not only impacts fiscal stability but also emphasizes the necessity for increased resources and capabilities within SARS to improve compliance and reduce the tax gap.

REPORT OF THE AUDITOR-GENERAL SOUTH AFRICA ON NATIONAL TREASURY AND FINANCE PORTFOLIO ENTITIES.

5.1. AGSA presented its findings on the 2023/24 audit outcomes for the Finance Portfolio to the Standing Committee on Finance. The audit covered key entities within the Finance Portfolio, including the National Treasury, South African Revenue Service, Public Investment Corporation (PIC), Government Pensions Administration Agency (GPAA), Cooperative Banks Development

Agency (CBDA), Development Bank of Southern Africa (DBSA), Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), Financial Sector Conduct Authority (FSCA), Independent Regulatory Board for Auditors (IRBA), Government Technical Advisory Centre (GTAC), Office of the Pension Funds Adjudicator (OPFA), Office of the Tax Ombud (OTO), Land Bank and its subsidiaries (Land Bank Insurance Company and Land Bank Life Insurance Company), and the Government Pension Administration Agency (GPAA). While the portfolio exhibited some positive trends, AGSA identified key areas needing improvement, including material irregularities and persistent compliance challenges.

5.2. AGSA noted a slight regression in audit outcomes compared to the prior year, with only 10 out of the 16 entities achieving unqualified audit opinions with no findings, down from 11 entities the previous year. However, the National Treasury and the CBDA showed notable improvements, achieving clean audits due to strengthened internal controls and effective audit action plans.

5.3. However, several entities faced recurring compliance issues, notably the PIC and GPAA, which struggled with expenditure management and consequence management. Key findings pointed to a need for enhanced internal controls and more timely filling of critical vacancies.

5.4. FFC regressed to an unqualified audit with findings due to unfilled key roles like CFO and CEO, affecting its compliance with asset and expenditure management regulations. Similarly, LBIC's audit outcome worsened from unqualified to qualified due to its failure to allocate expenses as per IFRS 17 standards.

5.5. Performance assessments across entities displayed significant variation, with some achieving their set goals while others lagged in critical areas. Notably, entities such as the FSCA and IRBA demonstrated strong internal controls and action plans, achieving 100% of their performance targets. This high level of achievement underscores their operational stability and adherence to strategic objectives. In contrast, National Treasury faced notable challenges in reaching key objectives, particularly in supporting financially distressed municipalities. NT managed to place only 75 out of the planned 80 technical advisors, with advisor resignations contributing to this gap. This shortfall hindered NT's capacity to provide comprehensive support for municipal debt management and financial recovery efforts.

5.6. Moreover, NT experienced delays in finalizing Financial Recovery Plans (FRPs) for municipalities in severe financial distress. This delay has further strained NT's ability to support timely financial stabilization efforts, reflecting a need for enhanced coordination and resource allocation in its municipal recovery strategies. Other entities, including SARS and the PIC, also faced critical gaps. SARS struggled with taxpayer satisfaction targets, and the PIC faced challenges with investment performance, indicating areas requiring improvement in service delivery and investment strategy.

5.7. The GPAA encountered significant setbacks, achieving only 6.25% of its target for disbursements under the Temporary Employees Pension Fund. This underperformance led to delayed pension payouts, directly affecting beneficiaries reliant on these funds and potentially influencing tax revenue. Additionally, DBSA experienced delays in infrastructure projects, which impacted community development initiatives and underscored the need for stronger alignment between performance goals and on-ground execution capabilities. These issues highlight the importance of consistent oversight and strategic alignment to achieve key objectives across the finance portfolio.

5.8. Across the portfolio, irregular expenditure showed a reduction from R80 million in 2022/23 to R69 million in 2023/24. Nevertheless, the bulk of irregularities stemmed from non-compliance with Supply Chain Management (SCM) regulations. SARS led with R32.5 million in irregular expenditure, primarily due to SCM non-compliance, while GTAC and NT reported irregularities related to ongoing multi-year contract expenses without adequate SCM oversight.

5.9. Fruitless and wasteful (F&W) expenditure saw a significant reduction from R1.788 million to R353,000, with a large portion incurred by PIC from overpaid salaries that are under recovery agreements with affected employees.

5.10. To date, only one Material Irregularity (MI) has been identified in the finance portfolio, linked to longstanding issues in the IFMS project. During the 2020-21 audit, an MI notification was issued to the Accounting Officer, prompted by findings from prior audits. This MI was associated with breaches of section 38(1)(c)(ii), section 38(1)(b), and section 45(b) of the Public Finance Management Act (PFMA), which pointed to fruitless and wasteful (F&W) expenditure dating back to the 2016-17 fiscal year. R400 million was expended on non-functional licenses, resulting in financial loss. Although AGSA's audit opinion was not directly impacted by this amount, the F&W expenditure was flagged as a prior-year concern, incurred in the 2021/22 fiscal year, with no payments made in 2023/24. NT's subsequent suspension of payments for technical support and its attempt to renegotiate with Oracle have stalled further expenditures; however, the failure to achieve value from these licenses remains a pressing issue.

5.11. The governance landscape within the finance portfolio remains largely stable, with most auditees maintaining fully constituted boards or accounting authorities and filling critical executive-level roles. Over the past year, key vacancies included the Accounting Officer positions at NT and GTAC, as well as the CFO and Chief Audit Executive (CAE) at NT, Managing Director (MD) for the CBDA, and the Chief Operating Officer (COO) and CFO at GPAA. NT, GPAA, and the PIC had vacant CFO positions, further impacting stability and operational efficiency.

5.12. Progress has been noted in filling some of these roles: NT has successfully appointed both an AO and CAE, while PIC filled its CFO position in April 2024. However, other key roles remain vacant, potentially impeding progress on action plans and effective governance. These vacancies include the COO and CFO positions at GPAA, the CEO and CFO roles at the FFC, the AO role at GTAC, and the MD role at CBDA. NT also continues to face challenges filling the CFO position due to an ongoing legal matter with the former incumbent.

5.13. AGSA recommended that accounting officers and authorities, alongside executive authorities, expedite the filling of these crucial roles to reinforce governance, foster leadership stability, and enhance the effectiveness of strategic initiatives across the portfolio.

5.14. Information and Communication Technology and infrastructure issues also persist, with entities like SARS making improvements in IT controls, while National Treasury’s reliance on legacy systems poses risks. AGSA’s findings underscored the importance of modernizing these systems to maintain operational resilience and safeguard data integrity.

5.15. AGSA provided recommendations for the Committee to strengthen oversight and improve financial governance. The Standing Committee on Finance was advised to intensify monitoring and follow-up with both the executive authority and accounting officers/authorities to address several key issues affecting the finance portfolio. Primary areas of concern include addressing the root causes of inadequate audit action plans and the ineffective monitoring of their implementation. This has contributed to deficiencies in the quality of financial and performance reports, non-compliance with supply chain management regulations, and shortcomings in consequence management.

5.16. Additionally, vacant key positions at entities such as National Treasury, Government Pensions Administration Agency, Financial and Fiscal Commission, and the Government Technical Advisory Centre continue to undermine operational effectiveness, and there are ongoing delays in the Integrated Financial Management System project due to contractual disputes and SIU investigations.

5.17. AGSA also recommended that the Committee focuses on ensuring that entities improve their monitoring mechanisms to meet critical service delivery targets. Active oversight on leadership's progress in implementing audit action plans is essential to enhance compliance with legislation and improve report quality. The Committee should continue to monitor the filling of vacant posts to ensure stable leadership across entities and request regular feedback on both the IFMS project status and the application of SIU recommendations.

5.18. Moreover, in-year reporting should serve as a mechanism to gauge the portfolio's rate of achieving service delivery objectives, allowing for timely intervention, corrective actions, or accountability discussions as needed. This sustained oversight will be vital in addressing these systemic challenges, fostering improved governance and operational efficiency across the finance portfolio.

5.19. AGSA’s 2023/24 audit report underscored a mix of progress and persistent challenges. While some entities demonstrated improvements, others remain hampered by compliance issues, material irregularities, and leadership gaps. AGSA encouraged the Committee to continue its oversight role in monitoring audit action plans, supporting consequence management, and ensuring that critical vacancies are filled. With these measures in place, the Finance Portfolio can strengthen its commitment to accountability, governance, and effective service delivery.

OBSERVATIONS AND RECOMMENDATIONS

REFLECTION ON THE 2019–2024 MEDIUM-TERM STRATEGIC FRAMEWORKCYCLE

6.1. The year under review, 2023/24, marks the conclusion of the 2019–2024 Medium-Term Strategic Framework (MTSF), South Africa’s second five-year implementation plan for the National Development Plan. This MTSF comprises 7 priorities, 81 outcomes, 337 interventions, and 561 indicators, providing a detailed roadmap for government departments to support the country’s developmental objectives. The priorities include building a capable state, economic transformation, quality basic services, spatial integration, social cohesion, and fostering South Africa’s role on the global stage.

6.2. According to the AGSA, NT and Finance Portfolio entities have shown alignment with critical MTSF targets, specifically in the areas of provincial and municipal budget systems, asset management, reduction of irregular expenditure, and integrated financial management system rollout. Key targets have seen partial progress, with achievements in establishing the illicit economy unit and operationalizing the Infrastructure Fund. However, performance against specific targets, especially in the reduction of fruitless, wasteful, unauthorized, and irregular expenditures, shows limited improvement, particularly at the local government level.

6.3. For instance, unfunded budgets remain high, with 108 municipalities reporting unfunded budgets as of the most recent assessment.Asset management continues to face challenges; a significant number of government properties (6,943 in use and 2,394 unoccupied) are in poor condition.Fruitless and wasteful expenditure in municipalities increased to R108.24 billion under MFMA oversight and R262.03 billion under PFMA oversight, underscoring financial management weaknesses.

6.4. The Committee is deeply concerned about the continued increase in irregular, fruitless, and wasteful expenditure across municipalities, as highlighted in AGSA’s report. This expenditure has surged alarmingly from R108 billion to R136 billion, despite National Treasury’s directive urging budgetary discipline. This trend points to ongoing weaknesses in financial management, poor budget allocation practices, and a lack of fiscal accountability within local governments, particularly in municipalities already facing significant debt obligations to Eskom and water boards.

6.5. The Committee observes that the escalating municipal debt to Eskom and water boards has reached unsustainable levels, risking the financial stability of state-owned entities and undermining the fiscal health of municipalities. This debt accumulation, largely due to municipal non-payment, has significantly impacted SOE liabilities. The Auditor-General of South Africa has warned that without urgent intervention, water boards may face insolvency. The Committee, aligning with AGSA’s recommendations, will enhance its oversight of these matters to ensure fiscal accountability, focusing on municipalities’ adherence to the Eskom Debt Relief Program and other compliance measures to mitigate this financial strain.

6.6. The Committee notes the assessment of AGSA that strategic outcomes set over the past five years within the MTSF, particularly in reducing Unauthorised, Irregular, Fruitless, and Wasteful expenditure and improving municipal financial systems, are unlikely to be fully met. This assessment reflects the limited progress in audit outcomes, especially within local government. However, AGSA acknowledges that National Treasury has implemented various targeted initiatives and programmes aligned with the Annual Performance Plan to support the public sector in these areas. The Committee recognizes NT’s ongoing work in addressing these persistent challenges and emphasizes the need for a focused approach to achieve these critical targets, enhancing governance and accountability. To ensure effective oversight, the Committee will request a comprehensive briefing from the Minister and NT at the end of the 3rd quarter of 2024/25, specifically on the progress towards MTSF target achievements within the Finance Portfolio.

GENERAL OBSERVATIONS AND RECOMMENDATIONS ON 2023/24 FINANCE PORTFOLIO AUDIT OUTCOMES

6.7. The Committee observes that the Finance Portfolio’s audit outcomes over the past five years show an encouraging trend toward improvement, reflecting advances in financial governance, compliance, and accountability. However, a slight regression was noted in the 2023/24 cycle, where 10 entities (63%) achieved unqualified audit opinions with no findings, a decrease from the 69% of entities in 2022/23. This minor decline underscores the need for ongoing and enhanced focus on internal controls and governance across entities to sustain and further the gains made in recent years.

6.8. The portfolio’s steady progress since 2019/20, when only six entities attained clean audits, underscores the effectiveness of targeted interventions and refined audit action plans. Nevertheless, the Committee acknowledges that there remains considerable room for improvement, emphasizing the expectation that entities within the Finance Portfolio, as custodians of public finances, continue to strengthen governance practices and set a standard for accountability across the public sector.

6.9. NT and the CBDA were particularly notable for advancing to unqualified with no findings. Their achievement reflects significant improvements in the control environment and decisive action on previous audit findings.

6.10. Eight entities, including the DBSA, IRBA, and FIC, sustained their clean audit status, attributed to strong leadership, efficient governance structures, and robust financial management practices. These entities demonstrate resilience in addressing audit findings promptly, supported by skilled and adequately resourced teams.

6.11. However, ongoing challenges persist within the portfolio, particularly among the PIC, GPAA, and Land Bank. The PIC faces persistent issues with asset management compliance and has regressed in its performance information audit due to material findings. GPAA struggles with repeated findings in expenditure and supply chain management and consequence management, largely due to critical vacancies and insufficient internal controls.

6.12. Material misstatements in financial statements are recurring in GPAA, LB, LBIC, and LBLIC, with compliance issues exacerbated by the adoption of new accounting standards (IFRS 17) and the entities' inadequate preparation for these transitions.

6.13. The FFC also regressed from unqualified with no findings to unqualified with findings, primarily due to a lack of skilled personnel and unfilled key positions in finance and supply chain management. This staffing challenge further impacted FFC's asset and expenditure management practices.

6.14. Similarly, the LBIC regressed due to incorrect recording and allocation of expenses as per IFRS 17. These regressions underline the need for strategic planning, staff upskilling, and strengthened oversight of audit processes to align with evolving financial reporting standards.

Irregular expenditure and consequence management

6.15. The Committee acknowledges the role of strong consequence management in achieving improved audit outcomes. The CBDA was commended for significant strides in resolving past cases of non-compliance and upholding accountability through consistent corrective actions. The PIC also made progress by implementing recovery processes for irregular expenditure, showcasing the positive impact of focused consequence management. In contrast, GPAA continues to encounter issues in this area, with repeat findings of material non-compliance due to gaps in documentation and delayed investigations.

6.16. The Committee however also notes with concern the persistent issue of irregular expenditure within the Finance Portfolio, which closed the 2023/24 financial year with an outstanding balance of R1.373 billion. Despite measures in place, the treatment of irregular expenditure remains largely unresolved, with only 12% of cases fully addressed, representing a significant gap in consequence management.

6.17. The Land Bank alone accounts for the majority of the unresolved irregular expenditure, contributing R981 million primarily due to extended service level agreements without National Treasury's prior approval. National Treasury itself reported R280 million in irregular expenditure, linked to unauthorized contract extensions and procurement practices, while the Government Pensions Administration Agency and the Financial and Fiscal Commission are also notable contributors.

6.18. This lack of progress in dealing with irregular expenditure signals significant lapses in internal controls, contract management, and oversight. Moreover, the top five contributors collectively represent 99.7% of the portfolio's unresolved irregular expenditure, indicating that these entities require particular attention to prevent repeated irregularities and enforce stronger accountability measures.

6.19. The Committee recommends that National Treasury and each of the implicated entities develop and implement comprehensive action plans to address irregular expenditure in a timely manner. These plans should include detailed steps for investigating and addressing unresolved irregular expenditure cases, specifying whether they will seek condonement, initiate recovery, or apply other remedial actions. To improve oversight, National Treasury should also establish more stringent guidelines and set strict deadlines for irregular expenditure cases awaiting condonement or recovery, particularly those from previous years.

6.20. For the Land Bank, the Committee recommends that all service level agreements be reviewed to ensure compliance with approval processes, with quarterly reporting to the Committee on the progress of rectifying these irregularities. Furthermore, an independent audit of contract management practices at the Land Bank, National Treasury, and GPAA is recommended to identify and address any systemic issues leading to irregular expenditure.

6.21. In cases where investigations into irregular expenditure are ongoing or not yet initiated, such as with FFC and GPAA, the Committee recommends establishing clear timelines for completion.

These timelines should be monitored closely by internal audit committees and reported on to ensure accountability. The Committee further recommends that Treasury establish a mechanism to track progress on irregular expenditure cases monthly, ensuring that cases do not accumulate and remain unresolved over extended periods.

Material Irregularity and IFMS

6.22. The Committee is deeply concerned about the ongoing material irregularity (MI) related to National Treasury's payments for the IFMS, with R400 million classified as fruitless and wasteful expenditure accumulated over six years. This MI, currently under legal review after a Special Investigating Unit (SIU) investigation, highlights significant governance issues within National Treasury. In response, this Committee will intensify its oversight on consequence management to drive accountability for this high-stakes project, emphasizing the need for a comprehensive briefing on the SIU investigation findings and recommendations before Parliament rises this quarter.

6.23. As outlined in the *Report of the Standing Committee on Finance on the Oversight Visit to the National Treasury*, dated 02 May 2023, the IFMS project has seen considerable financial investment. Initially budgeted at R4.2 billion, the project has incurred a total expenditure of approximately R2.66 billion, with R1.0 billion spent on IFMS 1 (discontinued before 2013) and a further R1.6 billion spent on subsequent phases, leaving a remaining project budget of R1.55 billion. Despite this substantial allocation, the IFMS has yet to deliver its core objectives of financial integration and modernization across government systems. The Auditor-General South Africa identified the R400 million in prior-year payments as fruitless and wasteful, citing deficient project execution and unresolved contractual disputes with service providers as primary causes. Given that payments for technical support have been suspended over the past two years, the Committee recognizes the urgent need for reassessment and strengthened accountability measures to protect public funds and deliver value for investment.

6.24. The Committee acknowledges the use of certificates of debt as a positive step toward enforcing accountability for non-compliant entities. However, concerns remain about timely issuance and effective follow-up on these certificates, especially concerning significant financial irregularities across public sector entities. The Committee has noted a need for greater clarity and consistency in monitoring and enforcing these certificates to ensure meaningful action against non-compliance. The Committee advises AGSA to provide regular briefings on certificates of debt, detailing cases of significant financial irregularities, timelines for implementation, and monitoring processes to ensure their effective enforcement. This will help reinforce transparency and accountability across the portfolio.

6.25. The Committee acknowledges AGSA’s concerns regarding the limited parliamentary term, which restricts the Committee’s ability to conduct timely and proactive oversight. This delay in addressing issues increases non-compliance risks, especially for financially struggling municipalities and high-risk entities. AGSA’s observations underscore the need for strategic prioritization of oversight activities, particularly for high-risk municipalities, and enhanced collaboration with AGSA and National Treasury to enable real-time monitoring of compliance and budget performance.

ICT Governance

6.26. IT governance across the Finance Portfolio has seen substantial improvements, with National Treasury, SARS, PIC, and DBSA fortifying their cybersecurity measures, enhancing system stability, and implementing strong IT controls. However, outdated systems and cybersecurity vulnerabilities remain challenges for some entities, with National Treasury experiencing issues in disaster recovery due to aged infrastructure. DBSA’s delayed implementation of digital and cloud-based solutions also requires renewed focus to ensure alignment with current business needs. Ensuring resilience in the ICT environment across entities is essential to support secure data management and service delivery continuity.

Unlisted investments

6.27. The Committee is concerned by persistent issues surrounding the Public Investment Corporation’s investment disclosure practices, particularly regarding unlisted and underperforming investments, despite legislative requirements outlined in the Public Investment Corporation Amendment Act. This non-compliance, which has been flagged for several years, poses transparency and accountability risks, especially given the significant implications for stakeholders such as government pension funds and the Unemployment Insurance Fund. Although the Auditor-General of South Africa confirmed PIC’s compliance in publishing required information, public skepticism remains strong. This highlights the need for more consistent, accessible reporting and independent verification of investment details to enhance trust. To address these concerns, the

Committee plans to conduct random oversight visits to a selection of PIC-funded unlisted projects during the 7th administration to assess their impact and transparency.

Project management of infrastructure development

6.28. While the DBSA has been successful in delivering capital projects like the Jewellery Manufacturing Precinct (JMP) and post-fire renovations for Parliament, there is an over-reliance on DBSA as an implementing agent, raising concerns about the capacity of departments to manage their own projects. The shift of responsibilities to DBSA reflects broader systemic capacity issues within departments, particularly those responsible for infrastructure development.The Committee advises that departments develop their internal capacity for project management rather than overly relying on the DBSA. This recommendation includes capacity-building programs to enable departments to independently manage infrastructure projects in alignment with budgetary and performance standards.

NATIONAL TREASURY OBSERVATIONS AND RECOMMENDATIONS

6.29. In the 2023/24 fiscal year, National Treasury achieved a budget utilization rate of 99.2%, underspending by R275.2 million out of a total allocation of R34.35 billion. This is an improvement compared to the 2022/23 fiscal year, where the Treasury utilized 96.5% of its budget, resulting in a higher underspend of R1.35 billion out of R38.84 billion. The reduction in underspending from the previous year demonstrates better alignment between planned and actual expenditures. Nonetheless, underspending across multiple programs continues, highlighting ongoing challenges in the timely execution of financial commitments, particularly in areas like procurement and capital asset investments.

6.30. In the 2023/24 fiscal year, National Treasury underspent by R3.5 million in Compensation of Employees due to delays in filling vacancies, a part of its cost-containment strategy. With a vacancy rate of 15.9%, staffing shortages pose a potential risk to effective service delivery, particularly in funded posts essential to Treasury's operations. While the Committee acknowledges the importance of cost-saving measures, it stresses that Treasury must be adequately staffed to fulfil its mandate effectively. A balanced approach is therefore recommended to ensure that cost-saving strategies do not undermine the department's capacity to meet its operational objectives and maintain high service standards.

6.31. NT should also expedite recruitment for high-impact roles and develop a vacancy prioritization plan, starting with senior leadership positions. The Committee requires NT to provide quarterly updates on staffing progress and a timeline for filling critical vacancies.

6.32. Underspending in the Goods and Services category reached R129.4 million, primarily due to delayed ICT procurements, reduced travel and meeting expenditures from cost-containment measures, and slower-than-expected progress on consulting projects. Treasury's expenditure reductions in these areas reflect an emphasis on cost efficiency but may signal a need for improved planning and execution processes, particularly in high-priority initiatives. Strengthening procurement and project management procedures could enhance service delivery timelines, optimize resource use, and support the department's broader program objectives.

6.33. The underspending in consultancy services across various programmes highlights delays and inefficiencies in managing external contracts. Within the Intergovernmental Relations Programme, a R17.8 million underspend stemmed from unfulfilled deliverables, while the Economic Policy Programme reported a R5.3 million underspend due to delays in appointing consultants. These delays indicate potential challenges in effectively coordinating and optimizing consultancy services for planned initiatives. Addressing these gaps could improve project timelines and enhance the impact of consultancy engagements across National Treasury's key areas.

6.34. The National Treasury underspent by R11.4 million on travel and subsistence due to a cost-containment directive issued in October 2023, which reduced delegation sizes and in-person meeting attendance. Additionally, R1.5 million was underspent on venues and facilities, as fewer physical meetings, training courses, and workshops were held. These savings reflect Treasury's adherence to cost-containment measures, especially for travel-related activities, which aligns with broader budgetary control efforts for the fiscal year.

6.35. The Economic Policy, Tax, Financial Regulation, and Research program (Programme 2) recorded an underspend of R10.9 million, primarily due to delays in planned consultancy services. This underspending reflects challenges in aligning external contract timelines with program objectives, indicating a need for enhanced scheduling and project management practices to ensure allocated funds are fully utilized within the fiscal year.

6.36. During the 2023/24 fiscal year, the National Treasury used virements extensively to reallocate a total of R623 million in response to funding shortfalls across various programs. This approach allowed Treasury to redirect internal savings to meet critical needs in areas facing budget constraints.

6.37. In Programme 1, R35.5 million was reallocated to address compensation deficits, including R26.8 million directed toward Programme 7 for post-retirement medical benefits and an additional R9 million allocated to SARS to cover wage settlements. Programme 2 contributed R12 million to support compensation shortfalls across other programs, helping to manage staffing needs with internal funds. Programme 3 similarly redistributed R7.7 million to other programs and sourced an additional R16 million to support SARS wage settlements.

6.38. Further significant adjustments included Programme 4's receipt of R24.3 million from Programme 7 to cover costs for an independent assessment of Eskom. Programme 5 benefited from R48.7 million in virements toward audit expenses and wage settlements, including R50 million sourced from Programme 7 to maintain operational support. Programme 6 saw a substantial reallocation, receiving R163.8 million, with R158.8 million dedicated to obligations in the Common Monetary Area.

6.39. Programme 7 was a central source of funds, transferring a total of R208 million across programs to meet shortfalls in employee benefits, audit costs, and other financial needs. Programme 8 received R123.1 million specifically for wage settlements and was bolstered by an additional R1 billion appropriation to SARS for urgent financial obligations.

6.40. While these virements allowed Treasury to manage budgetary constraints effectively, the reliance on frequent, large-scale reallocations within the budget cycle highlights potential areas for improvement in initial budget planning. Adjustments on this scale suggest that enhanced alignment between program needs and budget distributions may reduce the necessity for such extensive virements, enabling more stable and predictable financial management.

6.41. Administration achieved all its service delivery targets, including a 94% ICT service delivery compliance rate and a level 5 maturity in risk management. Training and development spending was 96%, notably exceeding the planned 70%. However, the programme underspent by R123.7 million, primarily due to a R100 million delay in capital assets procurement for ICT infrastructure. Despite initiating the tender process in September 2023 and advertising in October, contracting only commenced in February 2024. Consequently, National Treasury has applied for these funds to be rolled over to the 2024/25 financial year.

6.42. The Committee supports the roll-over application for the unspent funds. However, to minimize future underspending, it is recommended that National Treasury advance procurement processes for critical infrastructure projects to align more closely with budget allocations and project timelines. Improved pre-procurement planning and early initiation can ensure funds are utilized within the intended fiscal period, reducing reliance on roll-overs.

6.43. Programme 2 demonstrated effective policy formulation and research, with 30 research papers and nine reports on macro- and microeconomic issues, surpassing its targets. This aligns with Treasury's objectives of supporting informed economic policymaking. However, the underspending in this program due to consultancy delays suggests that more efficient contracting processes could improve timely service delivery and ensure research outputs contribute meaningfully to economic decision-making.

6.44. The Committee observes that Programme 3, responsible for budget allocation and public finance management, achieved 66.7% of its targets, reflecting a partial fulfilment of its objectives. Although it exceeded targets for catalytic projects in infrastructure, delays in grant disbursements and under-utilization in certain budget areas indicate areas where Treasury's performance may need further strengthening. The Committee encourages continued efforts to streamline fund disbursement processes to support consistent delivery on budgetary commitments.

6.45. Programme 4 met 100% of its targets, indicating strong oversight of public debt and fiscal stability. The Committee acknowledges Treasury's effectiveness in debt management and public asset oversight, as demonstrated by meeting all borrowing requirements. This level of compliance is vital for maintaining fiscal health; however, ongoing evaluations are recommended to ensure the sustainability of debt levels given current economic conditions.

6.46. With only 54.5% of its targets achieved, Programme 5 encountered performance issues, particularly in the rollout of systems such as the Integrated Financial Management System (IFMS). These challenges have implications for Treasury's ability to provide effective financial oversight and support local government SCM capabilities. The Committee observes that improving SCM systems and financial reporting is essential to enhance local government financial performance and accountability.

6.47. Programme 6 achieved 100% of its targets, processing pension and benefit payments on time. The Committee recognizes the importance of this program in ensuring stability for civil and military beneficiaries and commends Treasury's precision in managing these benefits within budget, maintaining full compliance in an essential service area.

6.48. Programme 7 successfully met all its targets, contributing to South Africa's economic positioning on an international level. This program facilitated effective engagement with BRICS, the IMF, and the World Bank, fostering fiscal cooperation with regional partners. The Committee views this as a key element in Treasury's strategic objectives and suggests maintaining these efforts to reinforce South Africa's global economic role.

6.49. Both the Revenue Administration and Financial Intelligence Programmes achieved 100% compliance with their budget allocations. The Committee notes that consistent performance in these areas contributes to fiscal stability and national security. Continued focus on achieving full compliance and addressing irregular expenditure is encouraged to further strengthen Treasury's credibility and operational integrity.

6.50. National Treasury reported that out of approximately 80 municipalities that applied for Eskom debt relief, only 17 managed to meet obligations, which raises serious concerns given that municipalities collectively owe Eskom around R80 billion. This debt situation is increasingly unsustainable, impacting the long-term viability of Eskom.

6.51. SCoF will request a comprehensive briefing from National Treasury, Eskom, and CoGTA, and the South African Local Government Association (SALGA) to gain a detailed understanding of the municipal debt landscape, including debt profiles by municipality, compliance with debt relief programs, and specific barriers to repayment. This briefing should also assess the impact of municipal debt on Eskom's liquidity and financial stability, while identifying any systemic risks posed to the national economy. Insights from this session will enable SCoF to develop targeted oversight recommendations, supporting Treasury and CoGTA in enforcing municipal compliance and strengthening Eskom's financial sustainability. Furthermore, the Chairperson of SCoF will confer with the Chairpersons of the Portfolio Committees on CoGTA and Energy and Electricity to ensure coordinated oversight.

6.52. The Committee notes that labour market programs (LMPs) appeared fragmented and difficult for beneficiaries to access due to numerous entry points across various departments. Concerns were also raised about the Jobs Fund, questioning its impact on addressing unemployment and whether funded projects have produced tangible results in terms of job creation and economic transformation.

6.53. National Treasury should evaluate the effectiveness of existing LMPs and explore options for consolidating or restructuring these initiatives to establish a more streamlined and accessible support system. This approach aims to improve accessibility for beneficiaries and ensure that funding is allocated toward projects with a substantial impact. An impact assessment of the Jobs Fund is recommended, with Treasury required to present findings to the Committee detailing how the program has contributed to employment creation and economic growth. Treasury should also improve reporting mechanisms to include measurable, outcome-based indicators that accurately represent program achievements. To supplement this oversight, the Committee will undertake random site visits to various Jobs Fund-supported programs to assess their on-the-ground impact and alignment with national employment and economic goals.

6.54. The Committee recommends that National Treasury consider reforms to improve efficiency in pension-related programs, particularly by assessing any functional overlaps between the Government Employees Pension Fund (GEPF) and the Government Pension Administration Agency (GPAA). By identifying and addressing redundancies, Treasury could enhance service delivery for beneficiaries and achieve cost efficiencies.

6.55. National Treasury should conduct a comprehensive review of pension program functions and services, specifically examining areas of duplication between GEPF and GPAA. A feasibility study on possible reforms should be prepared, with Treasury presenting its findings and an action plan to the Committee for evaluation. This streamlined approach could optimize resource use and improve pension services for beneficiaries.

6.56. Despite NT's investment in the Municipal Finance Improvement Program (MFIP), which includes technical advisors and support costing R66 million, only 13% of municipalities achieved clean audits. This indicates that MFIP's interventions may not be effectively addressing fundamental issues in financial management and fiscal discipline within local governments.

6.57. The Committee will require a comprehensive briefing from NT on the MFIP's effectiveness and challenges. NT should consider developing a revised support strategy with targeted interventions for municipalities at high risk of financial mismanagement. NT is expected to provide quarterly updates on the MFIP, specifically on progress in achieving clean audits and strengthening financial management practices in supported municipalities.

6.58. Treasury's township development strategy, which included 40 catalytic projects, has shown limited progress, with few projects reaching completion. This delay diminishes the economic impact these projects are intended to generate in marginalized communities and raises questions about the viability of Treasury's five-year strategy for township economic development.

6.59. NT should develop a focused timeline for each catalytic project, including funding allocations, deliverables, and completion dates. Quarterly updates on township project developments, including job creation metrics, should be presented to the Committee to ensure projects deliver tangible benefits.

6.60. South Africa's grey listing status highlights ongoing challenges in prosecuting complex financial crimes, with only 14 of the required 22 actions fully addressed to date. The unresolved gaps in anti-money laundering (AML) and counter-terrorism financing (CFT) measures pose risks to the cost of doing business and the stability of the financial sector, underscoring the need for stronger inter-agency coordination.

6.61. The Committee will request a comprehensive briefing from National Treasury, in collaboration with relevant departments, regulatory bodies, and law enforcement agencies, to outline a clear timeline for addressing outstanding grey listing requirements. This briefing should present a detailed action plan that includes defined roles, responsibilities, timelines, and key milestones to ensure the successful completion of all required actions.

OBSERVATIONS AND RECOMMENDATIONS ON SARS

Observations

6.62. The Committee acknowledges SARS's significant progress in supporting South Africa's economic and democratic goals, evolving from a paper-based system in the 1990s to a modern, digital tax administration. This transformation aligns with national objectives of inclusivity and fiscal stability, contributing positively to improved revenue collection and tax compliance. However, the Committee emphasizes that ongoing modernization efforts should be inclusive, particularly targeting equitable access for taxpayers in rural communities, ensuring that these efforts do not create digital access barriers in underserved areas.

6.63. The Committee notes SARS's strong revenue growth, with a compound annual growth rate of 9.9% since 1994, amounting to a cumulative R21.5 trillion. This growth, coupled with an increased tax-to-GDP ratio from 20.2% in 1994/95 to 24.7% in 2023/24, reflects SARS's role in enhancing financial independence and economic resilience for the country.

6.64. SARS's broadening of the taxpayer base by 1,133% from 2.7 million in 2003/04 to 33.3 million in 2023/24 highlights the effectiveness of its measures in fostering a stable tax system. However, the Committee observes that despite this expanded base, SARS's operational capacity remains constrained by limited funding. The Committee notes that the lack of adequate baseline funding, compounded by inflationary pressures, has impacted SARS's ability to meet its growing responsibilities, hindering modernization initiatives and limiting the necessary expansion in human resources.

6.65. SARS's workforce has decreased by approximately 20% over the past decade, affecting its capacity to address essential operational demands in areas such as enforcement, data analytics, and taxpayer assistance. This workforce reduction has led to a strain on service standards, presenting challenges in maintaining the high standards needed for efficient tax administration.

6.66. The Committee observes that SARS's modernization initiatives, which are essential for ensuring efficiency, security, and accessibility in tax administration, require sustained investment. Given the increasingly digital tax environment and the need for SARS to remain adaptable and responsive, there is a clear necessity for a stable, responsive funding structure.

6.67. The Committee notes that SARS's reported tax gap remains substantial, with approximately R800 billion or 32% of the estimated tax liability remaining uncollected. This tax gap underscores the need for SARS to enhance its compliance capabilities, particularly in addressing non-compliance in high-risk areas like illicit trade and among high-income individuals. Furthermore, the Committee is concerned that while SARS has made strides in revenue collection, the ongoing budget limitations have restricted its ability to modernize and optimize its enforcement capacity fully.

Recommendations

6.68. The Committee recommends that National Treasury increase SARS's baseline funding by R17–R20 billion over the Medium-Term Expenditure Framework (MTEF). This adjustment is essential to address the operational gaps created by years of limited growth in grant allocations, ensuring SARS can adequately meet its expanded mandate under current inflationary pressures.

6.69. To support short-term revenue recovery initiatives, the Committee recommends an annual allocation of approximately R1 billion. This targeted funding would improve SARS's capacity to enhance compliance measures and achieve sustainable revenue growth, contributing to national fiscal stability.

6.70. For modernization, the Committee supports the allocation of an additional R3 billion over the MTEF. This investment should facilitate digital upgrades, automation, and improvements in taxpayer services and compliance efforts. The Committee further recommends that a portion of this funding be used to extend SARS's presence in rural areas through mobile offices or other accessible platforms, ensuring individuals in underserved communities have equitable access to tax services, enhancing broader tax compliance and inclusivity.

6.71. The Committee recommends an allocation of R1.5 billion to support the hiring of 2,338 additional resources. Strengthening SARS's human resources is vital for improving service delivery, enforcing compliance, and effectively utilizing data analytics in tax administration.

6.72. Given the dynamic nature of the tax and customs environment, the Committee recommends periodic reviews of SARS's funding requirements. This approach will allow SARS's budget to adapt responsively to technological advancements and evolving priorities, helping maintain the organization's global competitiveness.

6.73. The Committee requests that SARS submit annual reports detailing measurable outcomes achieved through these additional funding allocations, with a particular focus on revenue growth, tax base expansion, and compliance improvements. This transparent reporting will enable the Committee to assess the tangible impacts of financial support on SARS's performance.

The MKP objects to the report and the EFF reserve their position.

Report to be considered.