Ethics Institute of South Africa

Reg. No. 1999/020697/08

United Nations Global Compact
Case Study

South Africa Revenue Service (SARS)

The creation of a SARS Ethics and Governance Office

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August 2006, Pretoria

Special thanks
- To the members of the SARS Ethics and Governance Office for presenting EthicSA with valuable information required in producing this article.

1.	Background

1.1   SARS profile

The South African Revenue Service Act 34 of 1997 provided for the amalgamation of two government departments, namely the old Departments of Inland Revenue and Customs and Excise. The amalgamated entity was named the South African Revenue Services (SARS) and granted autonomy to manage its affairs as a semi-state entity.

SARS plays a critical role in the development of the South African economy. Growing from a meager 1.5 million registered taxpayers in the early 1990's to a registered tax base exceeding 13 million in 2006, the expanding client pool of SARS reflects the significant growth in the South African economy over the last decade.

In order to ensure infrastructure development keeps pace with this growth, an efficient and responsible tax collection system is vital. Under the leadership of Commissioner Pravin Gordhan, SARS has in recent years provided government with budget surpluses counting billions of Rands.

It is therefore not surprising that SARS has a reputation for being one of the most efficient of the various South African semi-state entities, meeting or exceeding its revenue targets for seven years running. This may explain why employees and external commentators often characterize SARS as a challenging employer, with a very strong emphasis on financial performance.

SARS biographical data	
Sector:	Public
Organisation type:	Semi-state national entity (parastatal)
Industry:	Collection of taxes, duties and levies
Population:	Approximately 15 000 employees in more than 100 offices across South Africa
Leadership:	Commissioner Pravin Gordhan
Governance:	Governance framework is determined mainly by the Public Finance Management Act (PFMA) 1 of 1999 and the South Africa Revenue Service (SARS) Act 34 of 1997 as amended.
Mandate:	Collect all revenues due, ensure maximum compliance with legislation; provide a customs service that will maximise revenue collection, protect South Africa borders and facilitate trade.
Revenue collected:	R418 billion in the last financial year (ended 31 March 2006)

Box 1: SARS Biographical Data

1.2 Ethics Institute of South Africa and SARS

SARS is a member of the Ethics Institute of South Africa (EthicSA) and has to date trained and certified three Ethics Officers within the organisation. A fourth SARS manager has completed the Ethics Officer training, and is in the process of completing the practicum required for certification.

EthicSA's early engagement with SARS involved the establishment of internal ethics management and corruption prevention capacity. The aim was to create a SARS Ethics and Governance Office that would provide preventative capacity to compliment existing forensic investigative functions within the organization.

The ethical challenges faced by SARS are numerous, with EthicSA's ongoing involvement with the Ethics and Governance Office mainly in the provision of training and advisory services.

1.3 The United Nations Global Compact and SARS

As a public sector entity SARS is not a signatory to the Global Compact. However, it should become clear when engaging this case study that, especially with reference to principle 10 of the Global Compact, *Combating Corruption*, that SARS takes effort to embrace the ideals of the Global Compact.

1.4 Method of analysis

This case study is based on knowledge that EthicSA has gained through ongoing engagements with SARS since 2004. It included a review of practicum assignments developed by SARS Ethics Officers, an article developed by the Ethics and Governance Office on its genesis and challenges, and a critical analysis of a paper presented by the head of the Ethics and Governance Office, Mr Brian Kgomo, at a recent conference held in Cape Town.

1.5 Background

SARS is an organization characterized by change. Essentially a hybrid organization, being the integration of two very different government departments, Inland Revenue and Customs and Excise, it may be considered somewhat change fatigued.

The difficulty of merging differing organizational cultures was compounded by greater performance demands, requiring the new organization to rapidly adapt to an increasingly complex South African economy. Furthermore the organization had to cope with new technology implementation often requiring of employees that have worked for years on specific systems and formulae, to become proficient in entirely new processes, supportive hardware and software in a short space of time.

In between these organizational stressors, SARS went through numerous personnel shuffles associated with affirmative action and general reorganizations of it operations.

Our research has shown that approximately two thirds of interventions designed to combat corruption and promote responsible conduct should be focused on people management and only about one third on ensuring the presence and functioning of policy or technology.

Yet, organizations facing challenges, as SARS does, in particular organizations with very strong performance cultures, often suffer most in terms of human resource management.

The reasons for this are multiple:

1. Human resources are often the most neglected of departments, not taken seriously by a leadership cadre either trained as accountants or lawyers. Attuned to either think of people in terms of debits and credits, or risk and liabilities, they often regard human resources as a form of internally orientated public relations (PR), more akin to the spin of investor relations that the management of a valuable resource. In high performance organisations such a form of PR generally equates to a "take it or leave it" attitude from top management.

2. Human resource managers, mainly as a result of the above mentioned attitudes are often not sufficiently trained to deal with the complexities of managing people in large and developing organizations. While a typical manager in a financial environment may require extensive formal training and experience in order to be considered for the job, we often find human resource managers with little to no training taking control of aspects as important and far reaching as employee performance measurement and reward allocation. Considering the variables that rapid change introduces to such evaluations, many human resource managers are simply out of their depth.

3. High-performance organizations with very definite financial targets and rigid strategic objectives tend to under-invest in human resource infrastructure. This may include the neglect of data management and communication systems, or most basically investment in proper ergonomic office facilities. If you consider how widely dispersed SARS operations are, with offices in some of the most remote localities, it makes the execution of human resource management very difficult and inevitably pedestrian in responding to existing and emerging challenges.

4. Human resources the world over has a reputation for not being able to keep secrets. This may be attributed to a possible lack of professionalism in the field, but also in all fairness, to an important aspect of human resource management – conducting performance evaluations. By its very nature contentious, performance evaluations are the fuel feeding fires of office politics almost always burning brightest in and round human resource departments. It should therefore be no surprise that human resources are often not trusted. Forming a vicious circle, this usually translates in low use of formal grievance procedures, further hampering any possibility of building trust through the successful resolution of personnel related problems.

5. Office politics may be exacerbated by job specialization. It is our experience that specialization, along with organizational size and history, tends to increase the likelihood and extent of organizational silos developing - where groups and individuals fragment into entities prone to communication breakdowns and rivalries. Really a dynamic not different from the primary school gang or the bright eyed clique surrounding the head girl or boy, special position, equating to special knowledge, in turns corresponds to special identity. These "special knowledge groupings", are mostly resistant to change as it usually threatens the internal power and benefit arrangements within these groupings. Human resource practitioners are often aware of these issues as symptoms, but generally lack the organizational support required to treat the causes.

6. In high performance environments it may very well happen that top management tolerate behavior or even reward individuals in spite of unacceptable behavior solely because of their special knowledge status. They are so valuable to the organization that it is better to sweep under the carpet than to risk alienating geese laying the golden eggs. With human resources tasked to implement and evaluate employees conduct against formal policies and management objectives applicable to all, this inevitably leads to the credibility of human resources either being undermined by interference in its authority or inconsistency of application of its own evaluation practices.

7. Many modern organizations suffered from so called *management by objectives*. Entailing the setting of objectives within a line management environment, it essentially is designed, in theory, to enable top management to devolve their organizational objectives throughout management down the line management function. The CEO's objectives become fragmented into operation priorities each addressed by a responsible executive with further objective fragmentation down the management line. Obviously the deeper the organizational structure is the more fragmented the original message becomes with the associated increased difficulty of lower management to see the proverbial bigger picture. With line management now also involved in the evaluation of employees against these set objectives and invariably some of their own personal agendas thrown in as well, they effectively compete with human resources for the attention of those they evaluate, while compromising the likelihood of consistent application of evaluation criteria.

8. The formal culture of an organization, being its regulatory and policy framework, is more receptive to change management interventions than the informal culture, In terms of the formal culture of organizations it is relatively easy to do a desktop review and develop new or revised policies to supposedly address gaps and new challenges. Yet, it is the informal culture of an organization, its values, composed of its history, its myths and legends and the habits, manners and objectives of its leaders and role models, that results in the formal culture modifications to be effective of not. Simply put, you may develop any type of policy to address change and transformation but if the informal culture of organizations does not support it, it will have very little effect. Apart from not understanding this dynamic, human resources may simply not have the clout and interdepartmental support to successfully command the resources and cooperation required to address informal culture modification.

SARS suffers from many of the above ailments, being very successful in fulfilling its mandate as a collector of state revenue but less successful in managing the access and opportunities for unethical conduct among its own employees. To address this systemic risk required a change of thinking and management practices

2. Performance Analysis

2.1 Vision

The vision of SARS can be simply summarized – it is about building trust.

If we define trust as the residue of promises fulfilled then the challenge is to ensure that SARS consistently keeps it promises to its various stakeholders – among others its employees, tax payers and government. Efforts to ensure such consistency have a strong ethical dimension encompassing values such as honesty, fairness and respect. It is living these values that may be said to constitute integrity, in a personal and organizational sense.

Without integrity there is no trust. The vision – to build trust – therefore had to logically focus on the promotion of organizational integrity.

Corruption is a direct threat to personal and organizational integrity and therefore any integrity promotion intervention had to strongly concentrate on the combating of corruption.

The preamble of the United Nations Convention against Corruption states that corruption threatens the stability and security of societies by undermining the institutions and values of democracy, ethical values and justice and jeopardizes sustainable development and the rule of law. Corruption in the public sector results in funds being diverted from infrastructure and development projects into the pockets of corrupt officials, further increasing the costs of public services, while retarding service delivery.

Recognizing its role in facilitating service delivery and the promotion of good governance, SARS top management, during late 2004, decided to take the lead in the public sector with the establishment of an Ethics and Governance Office responsible for corruption prevention and the promotion of responsible business conduct

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The South African context

The South Africa anti-corruption campaign began in 1997. Two years later (1999) the first National Anti-corruption Summit was held, and this was followed by the publication of the Public Service Anti-corruption Strategy in January 2002.

The strategy contains the following proposals:
1. Review and consolidation of the legislative framework relating to corruption
2. Increased institutional capacity (minimum anti-corruption capacity)
3. Improved access to report wrongdoing and protection for "whistleblowers" and witnesses
4. Prohibition of corrupt individuals and businesses
5. Improved management and policies and practices
6. Management of professional ethics
7. Partnerships with stakeholders
8. Social analysis, research and policy advocacy
9. Awareness, training and education

Corruption, in both the public and private sector, has been broadly defined and criminalized in the Prevention and Combating of Corrupt Activities Act 12 of 2004.

The Second Anti-corruption Forum (March 2005) formulated resolutions with regards to ethics programs and corruption prevention:
1. Leadership committed to a culture of integrity and restoring confidence in the fight against corruption
2. Foster culture of integrity and accountability
3. Protected reporting, whistle-blowing
4. Ethics training
5. Values and principles of Code of Ethics promoted and enforced through a defined program
6. Research to audit the state of professional ethics in each sector

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Box 2: South African public service anti-corruption context

While the organization was in part responding to corporate governance standards like the Second King Committee Report on Corporate Governance (2002), key legislation and the South African government's anti-corruption programme (see *Box 2,* above), an important driver was the need to address systemic risk and improve the trust that taxpayers have in the organization. Especially the latter is important for the creation of a voluntary tax paying culture.

SARS's vision statement is therefore as follows:

> "to optimize revenue yield, facilitate trade and enlist new tax contributors by promoting awareness of the obligation to voluntarily comply with South African tax and customs laws, and to provide a quality and responsive service to the public."

Addressing systemic risk proactively is a necessary condition for sustainable reputation enhancement. Building trust in n organization must come from within, and no amount of marketing can make up for a lack of trust. Indeed it is often said that the more a distrusted organization attempts to promote itself in the public domain, the faster the bad news travels.

It was realized that the building of organizational trust cannot be divorced from the proactively engaging systemic risk, ethical risk. Otherwise the stated vision of SARS will come to nothing.

2.2   Leadership

Leadership can be evaluated on two levels, that of the organization as a whole and that of the Ethics and Governance Office itself.

On an organizational level the merger that created SARS also brought to bear the legacy of two government departments suffering from chronic corruption and malpractice, poor skills and working conditions, and a lack of adequate internal controls.

Leadership realized that in order to address these concerns, physical reorganization of assets and resources had to be complimented with a change in organizational culture. This was the primary innovation that drove the process of promoting responsible conduct within SARS, being not solely focused on policy and procedure but also on how employees engage with these policies and procedures (for a more in depth discussion please refer to *Item 2.6*, below).

In order to build trust a change in organizational culture was needed. This is because organizational culture, the unwritten rules of "how things really get done" are more influential in encouraging behaviour than formally stated policies and procedures. If the organizational culture is impregnated with unethical conduct, such as corruption, it is this culture that will undermine efforts on a policy level to combat it.

Without committed leadership it is unlikely for an organization to sustain the changes that it attempts to make. Commissioner Pravin Gordhan has acknowledged the role that ethics plays in ensuring the continued success of SARS' strategic efforts, and recognizes that sustainable change, in creating a culture intolerant of corruption, requires backing up the right words with the right actions.

Therefore the approach was to first clearly define an "ideal future state". Progress towards this future state must then be supported by both formal (policies, procedures, processes) and informal systems (the unwritten rules). Without measurement of progress and commensurate rewards it was also understood that it is unlikely that positive and lasting changes will be made to the organizational culture.

This meant a preventative approach to combating corruption was required. If the Ethics and Governance Office is to build trust, complementing an existing forensic function will have to:

- Enjoy full recognition, support and respect from senior management;
- Be populated by specially trained individuals;
- Be active throughout the organization, in all locations and facets of business;
- Enjoy organizational wide trust and not be directly involved in employee evaluative processes;
- Not be prone to become embroiled in organizational politics;
- Set and be custodians of consistently applied standards for ethical conduct throughout the organizations among all employment hierarchies; and
- Possess the knowledge, skill, budgets and organizational support to address the building of an ethical organization.

Following these principles the Ethics and Governance Office, somewhat controversially, included a forensic unit with the head of the Ethics and Governance Office also the head of this unit. Other units within the Ethics and Governance Office, the Integrity Unit, responsible for employee vetting, the Ethics Awareness Unit responsible for ethics training, and the Governance Unit responsible for policy development and research, operate separately from the forensic section – the Internal Corruption Investigations Unit. Forensic personnel within this unit do not engage in integrity promotion activities and vice versa.
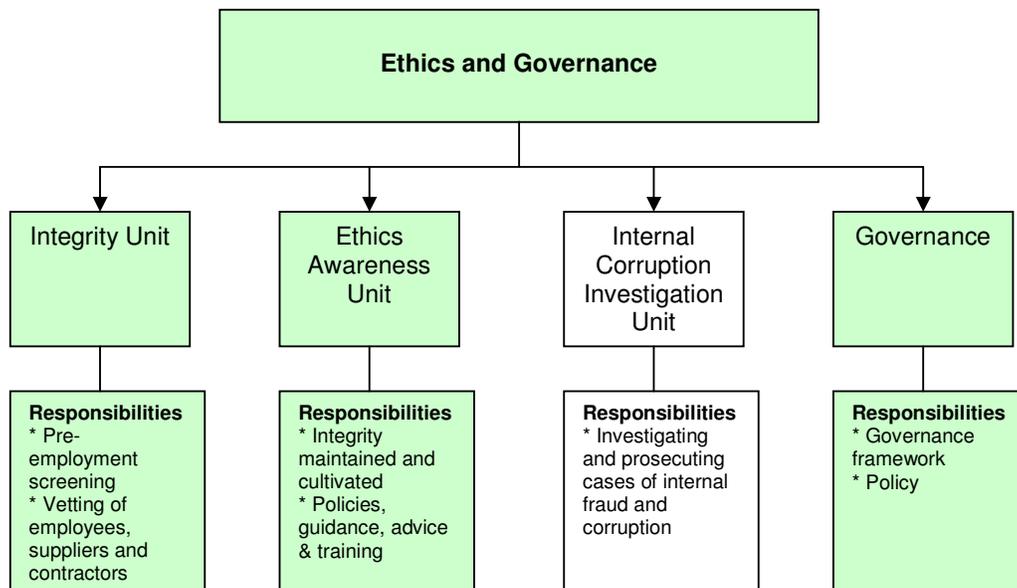
Normally we would advice against the head of an Ethics and Governance Office also being the head of a forensics unit because forensics personnel, by the reactive nature of their work and training are often not well liked in organizations, mostly due to no fault of their own. This potential negative association may undermine the neutral advisory position and capacity of an Ethics and Governance Office to proactively promote responsible conduct. A single organization carrying a carrot and stick may sacrifice trust.

A further reason for concern would be that the image of an investigations unit is usually that of corporate policeman with the SARS Internal Corruption Investigation Unit working closely with the South Africa Police Service. This may not be image you want associated with the Ethics and Governance Office.

It is especially in the training and awareness environment that one tends to sacrifice candour from participants when the awareness related unit and the forensic investigative units are perceived to be very closely associated

However, given the organizational history of SARS, its very particular risks in terms of fraud and corruption and the fact that the two offices are run and branded as separate entities, it seems to be a marriage of good convenience. A marriage we believe works because of the sensitivity of the current Ethics and governance Office head. It will however continue to require careful monitoring.

Throughout the article it should noted that when discussing the Ethics and Governance Office activities I will do not address activities within the Internal Corruption Investigations Unit unless explicitly stated.

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Integrity Unit	Ethics Awareness Unit	Internal Corruption Investigation Unit	Governance
Responsibilities * Pre-employment screening * Vetting of employees, suppliers and contractors	**Responsibilities** * Integrity maintained and cultivated * Policies, guidance, advice & training	**Responsibilities** * Investigating and prosecuting cases of internal fraud and corruption	**Responsibilities** * Governance framework * Policy

Box 3: SARS Ethics and Governance Office structure

2.3   Empowerment

Empowerment may be evaluated on a national governance scale, or in terms of employees.

The empowering ability of a well functioning revenue system on the state will be discussed under *Item 2.9*, below, both in terms of ensuring sufficient state revenue to be applied for the benefit of all citizens, and in the strengthening of governmental accountability.

On an employee level there are approximately 15,000 members of staff located at 100 sites across South Africa. These employees are the face, and the hands of the organization.

One of the major challenges of the Ethics and Governance Office is to ensure that all employees are empowered with *cognitive*, *behavioral* and *managerial* competencies in order to combat corruption in their spheres of influence.

2.3.1   *Cognitive competence*

The purpose of *cognitive* competence is to acquire the intellectual knowledge and skills to make proper ethical analyses and judgments, and to realize the consequences of not doing so.

The current SARS Ethics Training Seminars (a one-day program) for employees, which is presented by certified Ethics Officers within the Ethics and Governance Office, addresses this at a high level by covering values and a general overview of ethics. The program also educates employees on the SARS values, policies, codes and rules, procedures and systems, including the role and function of the Ethics and Governance Office.

2.3.2   *Behavioural competence*

However, the main focus of the program is to help employees to develop *behavioural* competency, being the inclination and commitment to behave ethically. In order to *be* ethical one has to act upon the knowledge surfaced by cognitive competency development. In other words ethics requires living your values not just recognizing it.

The use of case studies in teaching business ethics connects ethical aspirations to the experiences of employees. While discussing a scenario, participants have the opportunity to identify problems or dilemmas; apply the relevant codes, policies or rules; decide on the correct course of action (ethical decision-making), and recognize that moral courage is often required in following the correct course of action. By presenting their findings to the rest of the group there is a further opportunity for learning by evaluating the suitability, feasibility and acceptability of the suggested solution.

2.3.3   *Managerial competence*

Key employees, especially those working within or along side the Ethics and Governance Office requires *managerial* competency. Therefore EthicSA has trained 4 Ethics Officers on behalf of SARS during the last two years.

The EthicSA Ethics Officer Certification Programme is a national programme designed to equip individuals with the required skills to manage integrity promotion programmes within large organizations. Ethics Officers are also introduced to elements of systems theory, to assist then in analyzing and reacting to the complex set of environmental factors that influence their ability to promote cognitive and behavioural competencies for the combating of corruption among all employees.

The four SARS Ethics Officers are:

- The Head of the Integrity Unit
- A specialist ethics researcher
- Two ethics awareness programme specialists

Given the size of the organization, four ethics officer are probably not enough. For example, of an organization of similar size, Massmart Limited (www.massmart.co.za), being South Africa's largest publicly listed retailing group, has 13 ethics officers. Yet, if placed in perspective there are many large organizations active in South African economy that no formally established ethics management capacity.

2.4   Policies and strategies

SARS has formulated the following as the principles they subscribe to in their commitment to provide "excellent service to the public":

- Mutual trust and respect,
- Equity and fairness,
- Integrity and honesty,
- Transparency and openness, and
- Courtesy and commitment.

These principles may be summarized as respect and honesty in terms of stakeholder engagement and efficiency in terms of performing services and managing the organization.

These values provide the mandate for the Ethics and Governance Office. SARS can draw support for these principles and values from the *Batho Pele* Principles (see *Box 3*, below). Meaning "people first" in the Sotho language family, it is an conscious attempt by the Department of Public Service and Administration to sensitize public servants to the fact that their positions are not opportunities for self-enrichment but obligations of service requiring care, diligence and integrity.

SARS continues to introduce and refine the ethics related documents that serve to provide further guidance to employees on the application of the values. The Ethics and Governance Office, specifically the Governance Unit, is responsible for the development and periodic review of the Code of Ethics and associated policies.

The Batho Pele Principles

The South Africa Department of Public Service formulated the Batho Pele principles as a standard of professional ethics in service delivery in the public service. Batho Pele means "People First" in Sotho. The principles are as follows:

1. **Consultation**
2. **Setting service standards**
3. **Increasing access**
4. **Ensuring courtesy**
5. **Providing information**
6. **Openness and transparency**
7. **Redress**
8. **Value for money**

Box 4: Batho Pele (People First) Principles

The *SARS Gifts Policy* is a case in point describing how difficult such a task may be. Introduced in August of 2005, and prohibiting all SARS officials from accepting gifts, it met with some resistance but was generally positively received.

The giving of gifts, especially those of major monetary value may result in conflicts of interest or unwanted expectations of reciprocal favours arising. These factors are almost always the origin of corrupt relationships. Widespread and consistent compliance with this policy is therefore especially important to combat corruption.

The policy states that all gifts will be declined and returned, and where it is not possible to return gifts the Ethics and Governance Office will ensure that such gifts are donated to charity. Reasonable expectations of compliance exist for all the major points of entry and other large offices.

Yet, it is the remote office, sometime not much bigger than a container home placed in the desert that present SARS with a number of compliance challenges.

Personnel manning these remote outposts are often reliant on passing travelers, farmers and traders, to buy and deliver to then, upon their return, basic foodstuffs like canned food and maize. These employees get a salary but may not have the opportunity to visit a shop for weeks on end.

Under these conditions the provisions of the SARS Gifts Policy are meaningless. The border official, dependent on the "client" to ensure his or her comfort and survival is in no position not to accept gifts and is essentially deeply compromised and vulnerable to corrupt solicitations.

The reverse is of course also true. With national borders in Africa mainly political constructs that do not follow ecological or social boundaries, people often need to pass between borders on a regular basis to tend to livestock, buy groceries or visit family. These people are also vulnerable to exploitation, with the SARS official possessing an effective monopoly in terms of allowing movement between borders. When it comes to economic and political refugees pressing upon our borders, the risks are significantly amplified.

History has shown that when you combine vulnerability and monopoly in a service environment it represents access and opportunities for exploitation that many people succumb to. Few individuals possess the character and moral courage to withstand such pressures. That is the role of the organization – to provide an environment that supports employees in doing the right thing.

These basic infrastructure inadequacies are a reality not addressed in any university treatise on ethics, and result in systemic ethical risk that the mere existence of a policy will not mitigate. In this respect the policy only acts as a risk measurement device informing leadership of the challenges they still face and nothing more. This is a major challenge for SARS, with major positive advancements already made, not withstanding the long road still to be traveled.

Other policies that address ethics issues are in various stages of being implemented are:
- Declaration of interest policy
- Whistle-blowing policy (draft format)
- Personnel vetting policy
- Pre-employment enquiry policy

2.5   Resources

When the Integrity and Ethics Awareness Units was started in 2004, one employee who was certified as an Ethics Officer by EthicSA in 2005 staffed it. The recruitment of qualified staff continues, but another two Ethics Office employees have already been certified as Ethics Officers and a fourth is in the process of completing the practicum required for certification.

The Ethics and Governance Office is available to provide telephonic as well as email assistance to SARS employees. Advice may be required in interpreting of policies and resolving ethical dilemmas. The Ethics and Governance Office also maintains a web page that provides general guidance in respect of the abovementioned aspects, as well as a Frequently Asked Questions section.

An independent third party administers a SARS' Anti-corruption Hotline accessible to SARS employees and members of the public to report acts of corruption. The hotline allows for anonymous reporting.

While the focus on combating corruption is commendable, there is a risk that the name of the hotline and the current structure will result in ethics being understood only as corruption and to the exclusion of other issues (e.g. harassment and discrimination).

The conditions that give rise to corruption almost always have its roots in a human resources environment, with classical risk indicators like work pressure, dissatisfaction and high levels of observed misconduct directly contributing to the risk of corruption. By addressing the basic and apparently unrelated human resource related issues via internal and external hotline reporting paths you in effect, proactively mitigate conditions that may make your organization more prone to corruption.

Given the low levels of trust placed in internal grievance procedures within SARS, an external hotline that may be used for this purpose will be invaluable.
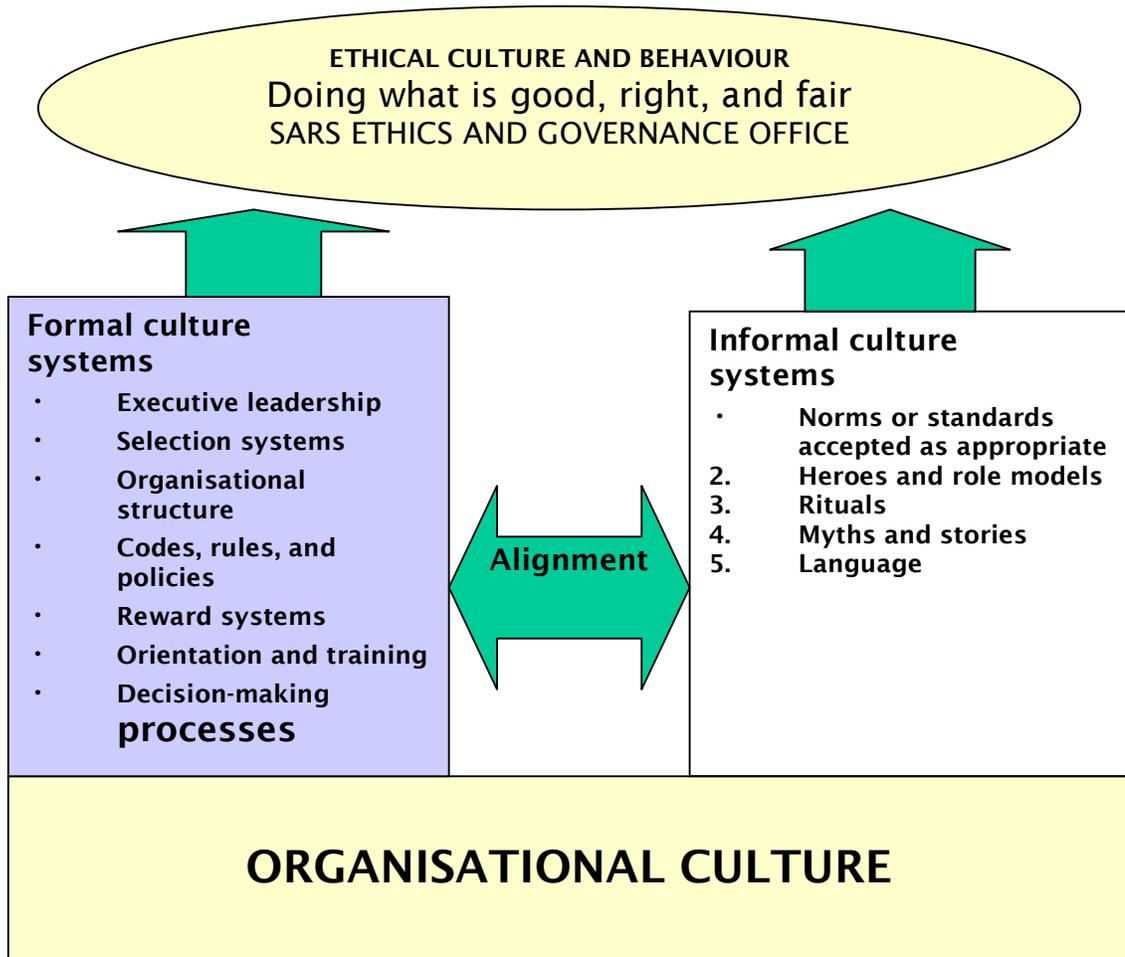
2.6 Innovation and process

SARS considers itself to be the leader in the government sector. They have claimed this position for themselves because of their initiative in establishing an Ethics and Governance Office, a first for the South African public service.

Probably the greatest innovation is not in introducing ethics management, but in the conscious effort to address the discrepancies and incongruence between formal culture elements and the informal culture of the organization. This is were ethical risk lies and as the problematic of consistently implementing a Gifts policy within an environment containing basic people management inadequacies has shown, it requires holistic effort to address.

The Ethics and Governance Office can, to their great credit, be defined as a managed effort to reconcile these two layers of the organization, the formal and the informal in such a manner that ethical risk, like corruption, is well contained. Ultimately the ideal is close alignment, where the policy framework of SARS reflects the ethical culture that the Ethics and Governance Office aims to direct in its building.

While a subject of worthy of more lengthy discussion, it may be enough to recognized that formal leadership it not enough. What is required that that the informal leaders scattered throughout and among all hierarchies support a drive to combat corruption and other ethical practices.

Box 5, below, graphically indicates the zones of intervention required to align these two sphere of influence, the formal and the informal, in order to make the SARS principles for responsible conduct living statements.

ETHICAL CULTURE AND BEHAVIOUR
Doing what is good, right, and fair
SARS ETHICS AND GOVERNANCE OFFICE

Formal culture systems
· Executive leadership
· Selection systems
· Organisational structure
· Codes, rules, and policies
· Reward systems
· Orientation and training
· Decision-making processes

Alignment

Informal culture systems
· Norms or standards accepted as appropriate
2. Heroes and role models
3. Rituals
4. Myths and stories
5. Language

ORGANISATIONAL CULTURE

Box 5: Alignment of formal and informal culture elements

2.7   Impact on people

The United States Federal Sentencing Guidelines (1991 & 2004), The King report on Corporate Governance for South Africa (2002) as well as the National Anti-corruption Forum require an evaluation, assessment or audit of the effectiveness of ethics programs. The business case to assess organizational ethics further strengthens the argument. In order to manage any organizational issue, it needs to be properly measured. *Box 5*, above, indicates some of the zones of assessment required to paint a proper picture of corruption risk, especially in terms of detection and the creation of a culture of reporting.

When the Ethics Office was established in 2004 with one dedicated employee, an interview tool was developed, for use in an organizational assessment. A limited number of interviews were conducted because of time constraints and the Ethics Offices' infancy, but the results of the assessment have been beneficial in establishing a baseline for subsequent assessments. The assessment identified a number of clear ethical risks that SARS faces.

The same interview tool was used in 2005 and the number of interviews was significantly increased. From the results of the assessment the Ethics Office were pleased to note increases in awareness among employees, which they believe can be ascribed to the awareness campaign and training

programmes taking place throughout the organization. The Ethics and Governance Office was able to use the results to tailor the contents of the training program to address relevant issues.

The study confirmed areas of concern, especially in terms of high levels of employee dissatisfaction, pressure to perform and observed misconduct levels.

In addition it highlighted a performance management system that measures performance strictly in accordance with financial targets, thereby creating a risk of delivering financial results at the expense of the values and ethical conduct that the organization claims to be embracing.

Another challenge that the organization faces is the decentralized manner in which it operates. As mentioned, SARS has more than 100 offices across South Africa, including every border post and port of entry. There are numerous employees responsible for customs at Johannesburg International Airport for instance, with easy access to facilities and transport, but this is in sharp contrast with some of the border posts to the North of the country where the closest town (with only the most basic goods available) is hundreds of kilometers away.

In such conditions infrastructure may consist of a container acting as office and accommodation for the two SARS officials, with one bed to be used by the employee who is not on shift.

A further challenge at border posts is that there are three organizations that operate in that environment: SARS Customs Office, the South Africa Police Service as well as the Department of Home Affairs responsible for immigration. This results in a blurring of boundaries especially in the public's eye. An employee from either of the other two organizations may commit an act of corruption impacting negatively on SARS's reputation.

To objectively assess these risks SARS plans on conducting an independent verification or Ethical Risk Audit in 2007.

2.8   Impact on the value chain

An organization of SARS' size represents significant purchasing power. For example, a recent tender for the provision of container scanners was to the amount of R1.5 billion.

SARS leadership has a simple choice, to lead an organization that is part of a crime fighting solution, or a problem. By expanding a zero-tolerance approach into the supply chain SARS, can create a positive island of integrity, promoting responsible conduct far beyond its organizational borders.

The Public Finance Management Act, 2000, provides the legal framework for such an exercise, prescribing minimum corruption prevention capacity within the organization and its supply chain (see, *Box 5*, below).

The PFMA was introduced to regulate financial management in national and provincial governments as well as constitutional institutions and public entities. The PFMA holds the accounting officer (CEO, head of the department, constitutional institution or public entity) responsible for ensuring that all revenue, expenditure, assets and liabilities under the accounting officer's control is management effectively and efficiently.

One of the proposals of the Public Service Anti-corruption Strategy was to increase institutional capacity through the development and prescription of minimum anti-corruption capacity.

The Public Finance Management Act

The minimum anti-corruption capacity requirements require the accounting officer to:
1. Specifically focus on and analyze corruption risk as part of risk assessment required in terms of the PFMA
2. Implement fraud plans required in terms of the PFMA, which fraud plans must specifically address the corruption risk
3. Verify the previous employment, qualifications, citizenship and criminal record of all persons before they are employed
4. Establish a system or systems that encourage and allow employees and citizens to report corruption, which system or systems must provide for confidentiality of reporting, the recording of all allegations of corruption received through the system or systems and a formal institutional arrangement for acting on such allegations
5. Establish a capacity to investigate allegations; institute and complete disciplinary action for cases of corruption; detect corruption; and refer allegations of corruption to a relevant law enforcement agency or other appropriate agencies/bodies in terms of a formal arrangement
6. Establish an information system that has record of all allegations; is able to track the progress with the management of each allegation; reveal systemic weaknesses and recurring risks and inform managers and employees of systemic weaknesses/risks; provide feedback to employees on the management of corruption allegations; and provide minimum information to designated national departments
7. Establish programs that inform employees on an ongoing basis on what constitutes corruption; promote the departmental and national policies that must be adhered to, including the values and principles of public administration as contained in the Constitution and standards of professional conduct; inform employees of corruption risks; encourage employees to report corruption; informs employees on the nature and working of protected disclosures and witness protection; and informs employees of obligations and rights in terms of the Access to Information and Promotion of Administrative Justice Acts.
8. Ensure that the employees responsible for the minimum functions have positive security clearances; and disclose financial interests to the accounting officer on an annual basis.

Box 6: The Public Finance Management Act & Minimum anti-corruption capacity requirements

2.9 Impact on society

An encouraging result from the 2005 organization assessment was that 100% of respondents indicated that they believe they are making a contribution to society as a result of the work they perform. There is a general sense, that in spite of problems, SARS is honouring its mandate.

SARS has been successful in building trust in society with anecdotal evidence indicating that many South Africans have more faith in SARS' ability to responsibly collect revenue than the government's ability to responsibly spend it.

This raises an important point. Although SARS may financially perform very well it, its societal value should be measured in the context of government generally being incapable of meaningfully spending this revenue due to skill shortages, bad leadership and management, and the inheritance of infrastructure neglect.

Seen from a critical distance, it is the good performance of SARS that should allow government to focus its energy in addressing developmental shortcomings, without having to concern itself with a problem endemic in the rest of Africa – the general inability to pay for schemes designed to stimulate the economy.

From a promotion of responsible government perspective, the good performance of SARS allows for South African citizens to demand full accountability from public officials for lack of service planning and provision since they know that in cases of non-performance it is mostly due to leadership failures and poor management, rather than a lack of funds. This underscores the fact that in any society intent on good and responsible government an effective revenue service is an absolute necessity.

Therefore, with SARS playing a vital role in the overall governance framework of South Africa it should not just be effectively run, but act as an example of responsible governance – an ethical sentinel.

2.10   Reporting and communication on progress

Currently SARS' communications are focused on raising awareness of its corruption combating and ethical conduct promotion programmes. External communications take place in the annual report, the Minister of Finance's report and the report from the Auditor-General.

In this respect more could be done to raise awareness of the activities of the Ethics and Governance Office. In engagements with various government departments we find that too few officials know about the energy spent and successes already achieve within the SARS Ethics and Governance Office. There is a lot to be proud of and as is often the case, these achievements are under-reported.

3.   Conclusion

The SARS Ethics and Governance Office does groundbreaking work within the sphere of public sector concerns. It has managed to avoid what so many government department suffer from, a lack of continuity in terms of personnel and stifling bureaucracy.

The establishment and expansion of the SARS Ethics and Governance Office was an evolutionary process with commendable leadership support enabling it to establish in a short space of time. There is also evidence emerging that it is having a positive influence on the ability of SARS to combat corruption. Most certainly there are higher levels of awareness present among employees. Corruption report also appears to become more prevalent with a number of significant cases being investigated.

What remains a concern is the challenges in the human resource environment and the lack of infrastructure support in many of the more remote regions. These issues are receiving attention but in a culture highly driven to produce financial results, these prerequisites to good ethical conformance always run the risk of suffering from under-investment.

Given the fact that the current commissioner may hand over the reigns in the foreseeable future, proper succession planning and continued top management support for the Ethics and Governance Office and its activities is of the utmost importance. SARS is on the right course - a luta continua

4.   Bibliography

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