



# Annual Report 2015/16



national regulator for  
compulsory specifications





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## **Part A:** General information



# NRCS information

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<b>Website address</b>	<a href="http://www.nrcs.org.za/">http://www.nrcs.org.za/</a>
<b>External auditors</b>	Auditor-General of South Africa (AGSA)
<b>Bankers</b>	Absa

# Abbreviations/acronyms

<b>AGSA</b>	Auditor-General of South Africa
<b>BCO</b>	Building Control Officer
<b>CFL</b>	Compact Fluorescent Lamp
<b>CFO</b>	Chief Financial Officer
<b>CIML</b>	International Committee of Legal Metrology
<b>CMM</b>	Chemicals, Materials and Mechanical Business Unit
<b>CRM</b>	Customer Relations Management
<b>DoH</b>	Department of Health
<b>DAFF</b>	Department of Agriculture, Forestry and Fisheries
<b>DoT</b>	Department of Transport
<b>ERP</b>	Enterprise Resource Planning
<b>FAI</b>	Food and Associated Industries Business Unit
<b>HR</b>	Human Resources
<b>ICT</b>	Information and Communication Technology
<b>IEC</b>	International Electrical Commission
<b>IPAP</b>	Industrial Policy Action Plan
<b>ISO</b>	International Organization for Standardization
<b>IT</b>	Information Technology
<b>LMA</b>	Legal Metrology Act, Act No. 9 of 2014
<b>LoA</b>	Letter of Authority
<b>LoC</b>	Letter of Certification
<b>MIBs</b>	Manufacturers, Importers and Builders
<b>NBR</b>	National Building Regulations
<b>NBR&amp;BS Act</b>	National Building Regulations and Building Standards Act, Act No. 103 of 1977
<b>NCC</b>	National Consumer Commission
<b>NDP</b>	National Development Plan
<b>NRCS</b>	National Regulator for Compulsory Specifications
<b>NRCS AG</b>	National Regulator for Compulsory Specifications Act, Act No. 5 of 2008
<b>OIML</b>	International Organisation of Legal Metrology
<b>PAC</b>	Project Approvals Committee
<b>PFMA</b>	Public Finance Management Act, Act No. 1 of 1999
<b>PPE</b>	Personal Protective Equipment
<b>R&amp;D</b>	Research and Development
<b>RR&amp;D</b>	Regulatory Research and Development Business Unit
<b>SABS</b>	South African Bureau of Standards
<b>SADC</b>	Southern African Development Community
<b>SADCMEL</b>	SADC Cooperation in Legal Metrology
<b>SANAS</b>	South African National Accreditation System
<b>SANS</b>	South African National Standards
<b>SAPS</b>	South African Police Service
<b>SARS</b>	South African Revenue Service
<b>the dti</b>	Department of Trade and Industry
<b>TR</b>	Technical Regulation
<b>VC</b>	Compulsory Specification
<b>Minister</b>	Minister of Trade and Industry

## Minister's foreword



The NRCS remains integral to the implementation of the South African Industrial Policy Action Plan (IPAP), as well as the work of the Department of Trade and Industry (**the dti**). The NRCS and other technical infrastructure institutions support industrial development by developing, maintaining and improving standards, compulsory specifications (VCs) and technical regulations (TRs). Technical infrastructure institutions also offer accreditation, testing, calibration, inspection, certification and verification services to enable compliance of products with standards and regulatory requirements.

In implementing IPAP, a number of new compulsory specifications were under development, one new compulsory specification on live lobster and four amended compulsory specifications on hot water storage tanks, passenger and commercial tyres and motor-operated or magnetically-driven handheld tools, transportable tools and lawn and garden machinery were finalised. Furthermore the Regulations to the newly enacted Legal Metrology Act, Act No. 9 of 2014 (LMA), were finalised and gazetted for first public comment. The LMA, which was promulgated in August 2014, expands and strengthens the scope of metrology to protect consumers against inaccurate measures; support local industrial competitiveness and enhance protection of both the environment, as well as public health and safety. The department has also embarked on a project to review the National Building Regulations and Building Standards Act, Act No. 103

of 1977 (NBR&BS Act), which was promulgated more than 30 years ago to incorporate the developments in the built environment since then.

The NRCS strategy is geared towards 'locking out' non-compliant products from trade. To this effect the NRCS has a strong presence at the main ports of entry into South Africa. Surveillance inspections at these ports of entry and within the country has started to bear fruit in preventing non-compliant products from entering into trade. In total, the NRCS confiscated R98.85 million of non-compliant products within the Automotive, Electro-technical and Chemicals, Materials and Mechanicals sector, which represents a 76% increase from the past financial year. These results have been made possible by co-operation and partnerships with other government agencies working closely with the NRCS, including the South African Revenue Service (SARS), the South African



In total, the NRCS confiscated R98.85 million of non-compliant products within the Automotive, Electro-technical and Chemicals, Materials and Mechanicals sector, which represents a 76% increase from the past financial year.

Police Service (SAPS) and other partners. Non-compliant products have a negative impact on the health and safety of South African consumers and the environment, and have a significant impact on the South African economy in that these cheaper, non-compliant products impair the local industry's ability to produce compliant products, thereby hindering the creation of jobs and development of the economy. The availability of non-compliant products remains a challenge which **the dti**, NRCS, other government agencies and industry role players need to tackle as a collective.

The NRCS continued with its responsibility to facilitate trade in fish and fishery products. It is the Competent Authority in South Africa and facilitates the registration of local companies exporting products to the European Union and the Far East. During the year under review, South Africa exported more than 100 000 tonnes of fishery products to the European Union and the Far East. As the Competent Authority, the NRCS issued 10 233 health guarantees, which ensured that all exported fishery and associated products were accepted in foreign markets and a further 7 117 compliance certificates were issued for imported fishery consignments. The products were certified safe for human consumption.

The NRCS also assisted informal settlements that were ravaged by shack fires by replacing non-compliant paraffin stoves with compliant products.

In enforcing compliance to safety standards, the NRCS continued to play a critical role in curbing the availability of harmful, substandard products as well as fraudulent and illegal products – all of which affect the health and safety of South African consumers. I remain grateful for the work being done by the NRCS and its achievements during the year under review. The department will continue to support the NRCS in its endeavours to realise its full potential, and will provide guidance in addressing challenges relating to revenue qualification in order to fully address the concerns raised by the Auditor-General.

**Dr Rob Davies**  
**Minister of Trade and Industry**  
29 July 2016

## CEO's overview



The primary role of the NRCS is to ensure that businesses produce, import or sell products or provide services that comply with the minimum safety and environment requirements, and do not fall short of the declared measure. The NRCS is also tasked to provide a regulatory function for the building industry to promote building safety, health, structural stability, and the uniform interpretation and implementation of the NBR&BS Act. The NRCS is an agency under the ambit of **the dti** and aligns itself with the Industrial Development Programme, as detailed in IPAP, as well as various other policy and action planning frameworks of **the dti**.

Effective regulation of the industry is dependent on strong implementation strategies and partnerships with other government entities and stakeholders. The NRCS is committed to working with its stakeholders to contribute to the developmental challenges facing the South African economy. During the year under review, the NRCS continued to collaborate with the National Consumer Commission (NCC), SARS, SAPS, DAFF, DoH, and DoT which have contributed to keeping non-compliant products out of trade.

Realising the important role that the regulated industries play, the NRCS started to implement programmes to work closely with industry role players, in order to reach agreement and manage the risk of non-compliance and to assist in ensuring that the products or services that they produce or supply meet the minimum requirements. The Self Compliance programme will be rolled out during the new financial year, initially targeting large retailers, and will be cascaded down to smaller retailers in due course.

### Vision 2020

The NRCS's main task is to prevent the harm to and unfair treatment of consumers, as well as the environment. This is a responsibility that every patriotic South African must be proud to have bestowed upon them and carry out with vigour, dignity, efficiency, tenacity, honesty and honour. It

should therefore be unconditionally accepted that every effort of the NRCS should be geared towards wiping out non-compliant products and unfair trade from the South African economy. It should also be an accepted rule that all of NRCS, including our associated partners, will put the NRCS and its mandate above everything else. In the spirit of placing the accomplishment of the NRCS mandate over and above everything else in the organisation, a medium-term vision, called Vision 2020, mapping the direction and actions to be completed by 2020, was developed. The Vision 2020 guided the development of the NRCS five-year Strategy as well as the 2016/17 Annual Performance Plan.

The implementation of the priorities highlighted in Vision 2020 will contribute significantly in accomplishing the NRCS's mandate and improving the overall performance of the organisation. It must be noted that the priorities identified and explored in Vision 2020 aligns themselves completely with the mandate and role of the NRCS, as provided for in the relevant legislation. The following will be implemented by 2020:

- Any product that can cause harm to the consumer or the environment and which can negatively impact on fair trade (safety-critical products) must be identified and regulated. This principle then demands that government

must identify safety critical products (products that are potentially unsafe) and regulate the minimum safety requirements for these products

- The manufacture, import, build of, and trade in, regulated products comply with compulsory specifications or technical regulations.. It should be compulsory for all regulated products entering South Africa or entering trade in South Africa to be pre-approved by the NRCS
- Implementation of a Risk-Based Approach (RBA) to enforcement
- Implementation of Risk-Based Approach to LoA's
- The SARS/ Border Control Operational Coordinating Committee should, by working closely with the NRCS, be in a position to identify all consignments that include regulated products and prescribed import documents for products entering SA must include the NRCS LoA.
- Encouragement of self-compliance to VCs/TRs

## Operational performance

### Approvals

The NRCS issued a total of 9 457 applications for pre-market approvals. Approximately 59% of the applications were for electro-technical products, 38% for automotive products and 3% for chemical, materials and mechanical products. Furthermore, In promoting South African products and facilitating trade, 10 233 health guarantees were issued for fisheries and associated product consignments destined for the European Union and Far East.

### Non-compliances

During 2015/16, non-compliant and unsafe products to the value of R204.85 million were removed from the market. The value of the products found non-compliant, that was either removed from the market or corrected before being sold in terms of the LMA, amounted to R106 million. Non-compliant products included paraffin stoves, incandescent lamps, compact fluorescent lamps (CFLs), plastic bags, motor vehicle lights, brake material, motorcycle helmets, fishery products and products falling short of their declared measure. The majority of these products were destroyed.

### Risk-based approach

The NRCS introduced a risk-based approach to inspections and approvals to curb the importation of non-compliant and unsafe products prior to granting the necessary regulatory approval. The RBA is currently being formulated and will be piloted in the 2016/17 financial year. The NRCS's risk-based approach is centred on product risk, country of origin risk and company risk.

### Market surveillance

The NRCS undertook a total of 50 509 inspections across all regulated industries. Inspections across the automotive, chemical, mechanical, electro-technical and metrology industries amounted to 19 940. In addition, NRCS inspected

all declared export consignments, as well as locally produced and imported fishery and associated products for compliance. Furthermore a total of 28 484 inspections were conducted for export consignments, and local and imported fisheries and processed meat consignments. The NRCS is also recognised as the Competent Authority by the Russian Federation leading to South African fishery producers now being exporting to Russia.

### Information technology

All regulated entities within the electro-technical industry applying for approval certificates are now submitting applications online. The CRM system has transformed the processes from manual systems to a digital processing and storage environment, making services accessible using web-based and mobile technology. The NRCS has finalised the needs analysis and currently is in the process of procuring an enterprise resource planning (ERP) system which will provide for the human resources (HR), payroll and financial management requirements of the organisation. Implementation is expected by the end of the 2017/18 financial year.

### Facilities

To cover the regulated market efficiently, the head office is located in Pretoria, with four regional offices in Cape Town, Durban, Port Elizabeth and Bloemfontein, and a satellite office in Hermanus in the Western Cape. The NRCS has embarked on a project to renovate the building in Port Elizabeth. The National Treasury approved the retention of surplus to undertake the refurbishment and to procure a building in Cape Town.

### Conclusion

The NRCS recognises the value of staff development and has partially implemented a Competency Development Programme (CDP), which was developed in consultation with Organised Labour to create a stable and conducive working environment.

During the year, the NRCS reviewed its operating processes, implemented stronger internal controls and enhanced operating procedures. Management and staff worked tirelessly to address internal control deficiencies, as noted by the Auditor-General of South Africa (AGSA). Management will continue to work with **the dti** and will engage the AGSA to find a solution to the revenue qualification.

I would like to take this opportunity to extend my sincere appreciation to NRCS employees for their hard work and contribution to the South African public. Last, but not least, the NRCS is grateful for the guidance and support from the Minister, management of **the dti**, the Audit and Risk Committee and the ICT Steering Committee.



**Asogan Moodley**  
Chief Executive Officer



# Statement of responsibility and confirmation of accuracy for the Annual Report

To the best of my knowledge and belief, I confirm the following:

- All information and amounts disclosed in the Annual Report is consistent with the Annual Financial Statements audited by the Auditor-General of South Africa (AGSA)
- The Annual Report is complete, accurate and is free from any omissions
- The Annual Report has been prepared in accordance with the *Annual Report Guide for Schedule 3A and 3C Public Entities* as issued by the National Treasury
- The Annual Financial Statements (Part E) have been prepared in accordance with the PFMA
- The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgments made in this information
- The Accounting Authority is responsible for establishing and implementing a system of internal control, designed to provide reasonable assurance as to the integrity and reliability of the performance information, HR information and Annual Financial Statements
- The AGSA is engaged to express an independent opinion on the Annual Financial Statements.

In my opinion, the Annual Report fairly reflects the operations, performance information, HR information and the financial affairs of the NRCS for the financial year ended 31 March 2015.

Yours faithfully



**Mr Asogan Moodley**  
**Chief Executive Officer**

29 July 2016

# Strategic overview

## Vision

A credible and respected regulator for the protection of the public, the economy and the environment.

## Mission

To develop compulsory specifications and technical regulations and maximise compliance of regulated products and services.

## Values

- **Professionalism –**

The NRCS shall act independently and take informed decisions with a high level of integrity. In doing so, the decisions that we take shall be responsive to the country's needs and ensure that we are competent in discharging our responsibilities.

- **Accountable –**

The NRCS shall develop a high performance culture which is dictated by predictable, responsible, efficient and effective task teams.

- **Innovative –**

The NRCS shall be proactive and respond rapidly, intelligently, appropriately and be adaptable to the dynamic consumer and market needs by ensuring maintained relevance.

- **Collaborative –**

The NRCS will lead inclusively through dedicated teams, respecting the views, wisdom and loyalty of its valued stakeholders.

- **Ethical –**

The NRCS shall ensure that the decisions and actions taken by our human resources display consistency and impartiality, with integrity. We shall treat our clients and the regulated industry equitably and be transparent on how we perform our functions.

# Legislative and other mandates

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 as an agency of the Department of Trade and Industry (**the dti**). Its broad mandate is to promote public health and safety, environmental protection and fair trade through the administration, maintenance and enforcement of compulsory specifications and technical regulations.

The legislative mandate of the NRCS is derived from:

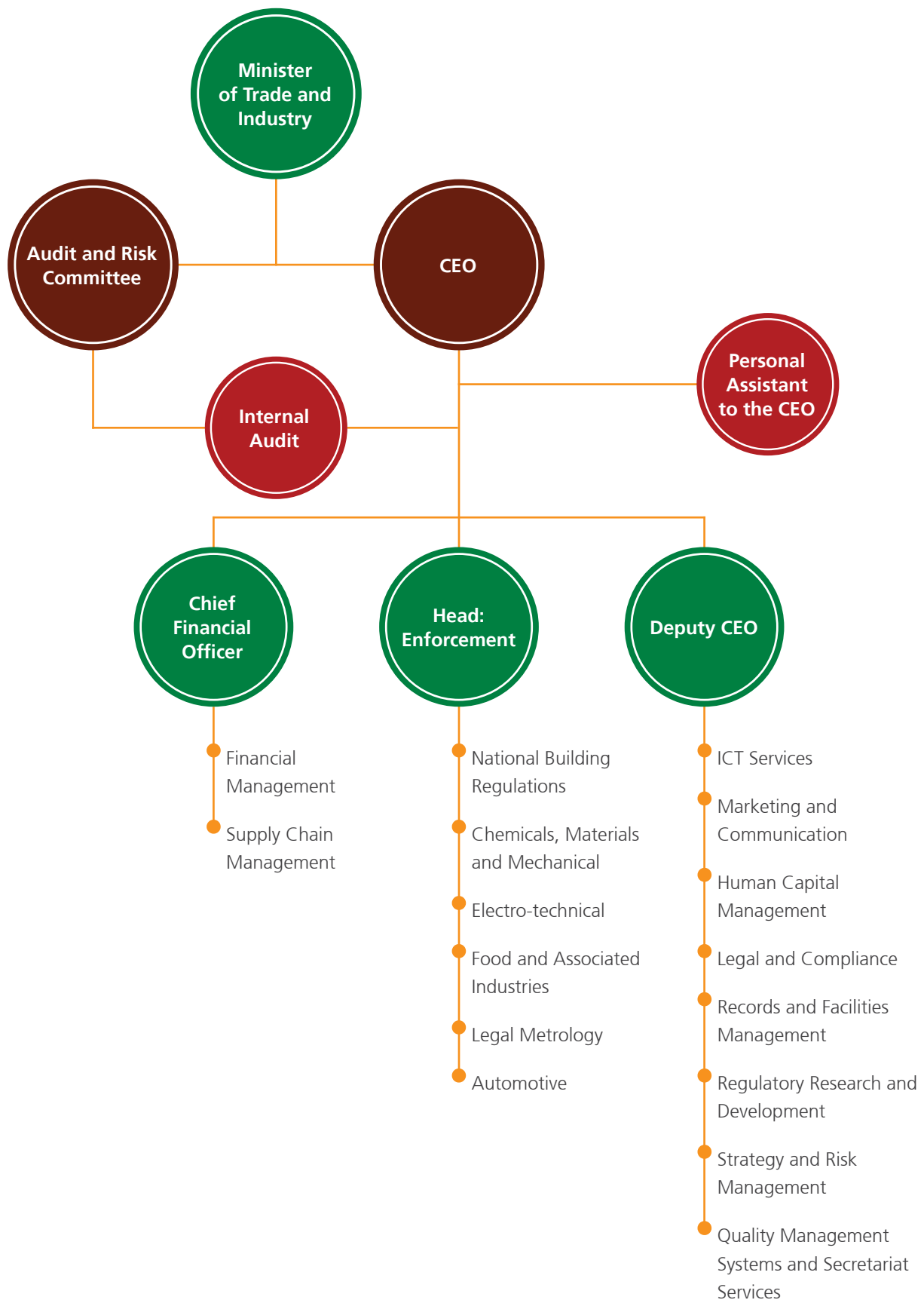
- The National Regulator for Compulsory Specifications Act, Act No. 5 of 2008
- The Legal Metrology Act, Act No. 9 of 2014
- The National Building Regulations and Building Standards Act, Act No. 103 of 1977
- The Public Finance Management Act, Act No. 1 of 1999
- National Road Traffic Act, Act No. 93 of 1996.

The NRCS is a Schedule 3A public entity in terms of the PFMA. Its stakeholders include the South African government, industry and citizens.

In addition to its legislative mandate, the NRCS's strategy is aligned with that of **the dti**, specifically with regard to the following strategic objectives of the department:

- Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation
- Create a fair regulatory environment that enables investment, trade and enterprise development, in an equitable and socially responsible manner
- Build mutually beneficial regional and global relations to advance South Africa's trade, industrial policy and economic development objectives.

# Organisational structure





## **Part B:** Performance information

# Auditor's report: predetermined objectives

The AGSA currently performs audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion on the performance information reported by the NRCS. The audit conclusion on the performance against predetermined objectives is included in the Report to Management, with material findings being reported

under the 'Predetermined Objectives' heading in the 'Legal and Regulatory Requirements' section of the AGSA's Report.

Refer to page 75 of the AGSA's Report, published in Part E: Financial Information.





# Performance information by objective

## Strategic goals, performance indicators planned targets and actual achievements

### Strategic Goal 1: Develop, maintain and administer compulsory specifications (VCs) and technical regulations (TRs)

*Expected outcome: Build a regulatory system responsive to market needs*

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
Develop a set of VCs/TRs that are responsive to market needs	Number of new, amended and withdrawn VCs/TRs submitted to <b>the dti</b> for approval	9 VCs/TRs	10 VCs/TRs	8 VCs/TRs submitted to <b>the dti</b> for approval/first gazetting	20% negative variance	This represents an achievement of 80% of the set target. The negative variance is due to the delay in finalising two other VCs because of the failure to reach an agreement with industry on the levies needed to cover regulatory cost for one of the new VCs and poor stakeholder participation for another, which then required further meetings to ensure that wider stakeholder involvement is achieved
Research and Development (R&D) Strategy	Number of technical papers approved by the NRCS's CEO for publication	-	2 technical papers approved by the NRCS's CEO for publication	2 technical papers approved by the NRCS's CEO for publication	No variance	N/A
Ensure the uniform understanding and implementation of the NBR&BS Act nationally	Administer Review Board: Number of days from the date the NRCS receives a Review Board appeal to the date it issues a Review Board Report	-	100% of all Review Board appeal decisions finalised within 30 calendar days from the date of the Review Board to the date it issues a Review Board Report	100% Review Board decisions finalised within 30 calendar days	No variance	N/A

## Strategic Goal 2: Maximise compliance with all specifications and TRs

*Expected outcome: Increased compliance with VCs and TRs*

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
<b>Automotive</b>						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the automotive sector	Number of source inspections (including border inspections) conducted within the automotive industry	1 712	3 200	2 623 source inspections conducted	18% negative variances	Effort directed to retail inspections due to the need to inspect outlying areas and eradicate non-compliances
	Number of retail inspections conducted within the automotive industry	653	800	1 121 retail inspections conducted	40% positive variance	
	Total inspections conducted	2 365	4 000	3 744 total inspections conducted	6% negative inspection variance	
	Percentage of approvals processed within 120 working days. Number of working days to process approvals for the automotive industry – from the date received by the NRCS to the date approved or rejected	99.64%	100% processed within 120 working days	97.65% (3 497/3 581) of approvals, processed within 120 working days	3% negative variance	Inadequate documentation and unacceptable test reports (failed test reports or reports from non-accredited facilities) submitted by the applicant

**Strategic Goal 2: Maximise compliance with all specifications and TRs (continued)**

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
<b>Chemicals, Materials and Mechanicals (CMM)</b>						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the CMM sector	Number of source inspections (including border inspections) conducted within the CMM sector	1 554 source inspections conducted	3 360	1 993 total source inspections	41% negative variance	Priority had to be given to dormant VCs. Implementing the three dormant VCs out of the four required a significant amount of inspector's time
	Number of retail inspections conducted within the CMM sector	3 143 retail inspections conducted	2 240	2 873 retail inspections conducted	28% positive variance	
	Total number of inspections conducted in the CMM sector	Total number of inspections conducted 4 697	5 600	4 866 total inspections conducted	13% negative variance	
	Percentage of approval applications processed within 120 working days	66.04% of the processed Letters of Authority (LoAs) processed within 120 working days	90% processed within 120 working days	55.6% (158/284) of LoAs processed within 120 working days	34.4% negative variance	Due to the dormant treated timber and safety glazing compulsory specifications, applications submitted in prior years were not processed, creating a backlog. These applications were only processed in 2015/16
	Number of working days to process approvals for the CMM sector, from the date received by the NRCS to the date approved or rejected					

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
<b>Electro-technical</b>						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the electro-technical sector	Number of source inspections (including border inspections) conducted within the electro-technical sector	2 167	2 640	2 761 source inspections conducted	5% positive variance	Most containers to South Africa comes from the Durban Harbour. Durban Office staff members focused on
	Number of retail inspections conducted within the electro-technical sector	1 696	1 760	2 129 retail inspections conducted	21% positive variance	inspection at the border rather than retail, and conducted inspections
	Total number of inspections conducted in the electro-technical sector	3 863	4 400	4 890 total inspections conducted	11% positive variance	on more than the planned consignments
	Number of working days to process approvals for the electro-technical sector, from the date received by the NRCS to the date approved or rejected					
	Percentage of approval applications processed within 120 working days	94.2%	95% of LoAs processed within 120 working days	5 592 (68%) of the applications processed were processed within 120 working days	27% negative variance	The increased effort at ports of entry is leading to an increase in LoA applications. Additional reasons for the increase in LoA application-related workload include:
	Number of working days to process electro-technical approval applications, from the date of receipt to approval/rejection					<ul style="list-style-type: none"> <li>• Backlog from the past financial year</li> <li>• New VC on standby power requirement for the energy efficiency of electrical and electronic apparatus</li> </ul>

**Strategic Goal 2: Maximise compliance with all specifications and TRs (continued)**

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
<b>Legal Metrology</b>						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the legal metrology domain	Number of source inspections conducted within the legal metrology domain	4 050	4 151	5 367 source inspections	29% positive variances	Increased focus on source inspections, which included importers (targeted at borders), resulted in more source inspections being carried out by Legal Metrology
	Number of retail inspections conducted within the legal metrology domain	1 212	1 038	1 073 retail inspections	3% positive variance	
	Total inspections conducted	5 262	5 189	6 440 inspections	24% positive variance	
	Percentage of approval applications processed within 120 working days	100% of all processed type approval applications processed within 120 working days	100% of all applications processed within 120 working days	100% (170 out of 170) of all processed type approval applications processed within 120 working days	No variance	N/A
	Number of working days to process type approvals for measuring instruments, from the date received by the NRCS to the date approved or rejected					
	Percentage of approval applications processed within 120 working days	95.6%	100% of all applications processed within 21 working days	82% (936 of 1 135) of all processed gaming approvals processed within 21 working days	18% negative variance	The NRCS has experienced a significant unplanned surge (200%) in applications for Letters of Certification (LoCs) during November and December 2015 due to the decision by the Gauteng Gambling Board (GGB) to introduce expiry dates on licences for products authorised by the GGB
	Number of working days to process approvals for gaming equipment, from the date received by the NRCS to the date approved or rejected					

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
<b>Foods and Associated Industries</b>						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the foods and associated products sector	Percentage of inspections conducted on locally produced canned fish and meat products in accordance with the compulsory specification and procedures	Inspected 100% of all declared locally produced canned fish and meat products  Canned fish: 2 842 Canned meat: 4 436	100% of all declared locally produced canned fish and meat products	Inspected 100% of all declared canned fishery and meat products  Canned fish: 3 193 Canned meat: 4 019	No variance	N/A
	Number of inspections conducted on locally produced frozen products in accordance with the compulsory specification and procedures	1 034 frozen fish inspections conducted	1 045 frozen fish inspections	1016 inspections conducted	3% negative variance	Decrease in the number of frozen fish product consignments inspected due to the available resources at sea
	Percentage of inspections conducted on all declared imported canned fish, meat and frozen fish product consignments	Inspected 100% of all declared imported canned fish, meat and frozen fish product consignments (8 569 inspections)	100% of all declared imported canned fish, meat and frozen fish product consignments	Inspected 100% of all imported canned fish, meat and frozen fishery product consignments (7 524 inspections)	No variance	N/A
	Percentage of inspections conducted on requests received for fish and fishery and canned meat export products consignments	Inspected 100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments (13 668 inspections)	100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments	Inspected 100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments (13 748 inspections)	No variance	N/A
	Number of inspections conducted on fishery and canned meat processing factories and vessels	1 074 fishery and canned meat processing factories and vessels inspected	1 020 facility inspections	1 069 facilities inspections	5% positive variance	There was an increase in the number of facilities inspected as a result of the Small-scale Fisheries Policy implemented by DAFF



### Strategic Goal 3: Inform and educate our stakeholders about the NRCS

*Expected outcome: Informed stakeholders on NRCS functions*

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
Increased awareness of the NRCS brand and functions	% increase in awareness of the NRCS brand	-	5% increase in brand awareness as compared to previous financial year	None	100% negative variance	No survey was conducted to determine the level of brand awareness. A decision was made during the third quarter of the financial year to postpone the survey to 2018. This was done to ensure that the unit invests more in consumer education campaigns across the country and then conduct the survey after
Public awareness platforms and events	Number of programme-focused publications	10 internal and no external electronic publications published	12 internal and 4 external electronic publications	12 internal and 4 external electronic publications	No variance	N/A
	Number of multimedia awareness campaigns	No multimedia awareness campaigns conducted	2 multimedia awareness campaigns	2 multimedia awareness campaigns conducted	No variance	N/A
	Number of stakeholder and consumer education events or campaigns	13 consumer education events and campaigns conducted	9 NRCS consumer education events or campaigns	10 NRCS consumer education events or campaigns	11% positive variance	The unit conducted an additional outreach programme in Tembisa during the launch of the Safety Campaign, thereby exceeding its target

## Strategic Goal 4: Ensure an optimally capacitated institution

Measurable objective/output	Performance indicator/measure	Audited performance 2014/15	2015/16 target	Actual performance 2015/16	% variance	Reason for variance
A capacitated organisation with relevant systems to support business	Percentage of vacancy rate	-	6%	Average annual vacancy rate 6.8%	0.8% positive variance	N/A
	Number of employees trained during the financial year	301 employees trained	120 employees trained	158	32% positive variance	Due to identified training needs, the NRCS appointed service providers to offer group training which led to a high number of employees trained at a relatively low cost to the organisation
Build an information technology (IT) platform that supports and improves business	% NRCS IT system availability	98%	96%	98% system availability	2% positive variance	N/A

## Linking performance with budgets

Objective	2015/16			2014/15		
	Budget R'000	Actual expenditure R'000	(Over)/under expenditure R'000	Budget R'000	Actual expenditure R'000	(Over)/under expenditure R'000
Develop, maintain and administer VCs and TRs	14 799	7 884	6 915	15 538	8 727	6 811
Maximise compliance with all specifications and TRs	212 940	198 450	14 490	175 688	184 368	(8 680)
Inform and educate our stakeholders about the NRCS	8 033	9 099	(1 066)	8 472	4 640	3 832
Ensure an optimally capacitated institution	54 902	56 132	1 230	50 515	46 195	4 320
Administration	65 714	36 746	28 968	63 201	34 582	28 619
<b>Total</b>	<b>356 388</b>	<b>308 311</b>	<b>48 077</b>	<b>313 414</b>	<b>278 512</b>	<b>34 902</b>

# Business unit performance

## Automotive



### Overview

The Automotive Business Unit is responsible for the administration of compulsory specifications (VCs) for motor vehicles and identified motor vehicle replacement components. Additional regulatory powers are granted to the NRCS by the Department of Transport (DoT) in terms of the National Road Traffic Act, Act No. 93 of 1996, through which it is appointed as the inspectorate of manufacturers, importers and builders (MIBs) of motor vehicles.

Our strategic partners include government departments (for example **the dti** as well as the national and provincial Departments of Transport); foreign governments and regional groupings, such as the Southern African Development Community (SADC); national and international organisations of which South Africa is a member, such as the Working Party 29 (WP29); and all other parties affected by our regulatory activities, including consumers and their representative organisations.

Our stakeholders with whom we share a common purpose, assist us in executing our mandate effectively.

Stakeholders include, but are not limited to:

- SARS Customs Unit in providing effective import control at all ports of entry
- SAPS, where there is evidence/suspicion of illegal vehicles in the market or where illegal conversion of motor vehicles or use of MIB status occurs
- United Nations Economic Commission for Europe (UNECE), in the harmonisation of compulsory standards with international standards as required in terms of the World Trade Organization (WTO) Technical Barriers to Trade Agreement

- SADC to further the harmonisation of technical regulations in the region in support of the SADC Trade Protocol and wherever possible, provide assistance to SADC member countries with the establishment of infrastructure to implement and administer technical regulations.

The unit had a total staff complement of 44 employees at the end of the reporting period.

## Overall performance

### Approvals

In terms of the NRCS Act, the NRCS issues a Letter of Authority (LoA) certificate which permits commodities or products to be sold or services to be rendered in South Africa. The Automotive Business Unit processed pre-market approvals – a confirmation by the NRCS that the vehicle model or vehicle component that was submitted by the applicant, importer or manufacturer of a regulated product, met the requirements of the relevant compulsory specifications or technical regulation.

The unit homologates vehicles, as well as certain vehicle components (total number of 22 VCs), including:

- Agricultural tractors
- Buses
- Child restraints
- Heavy commercial vehicles
- Hydraulic brake and clutch fluid
- Light commercial vehicles
- Vehicle lighting equipment
- Motorcycles, motor tricycles and quadrocycles
- Passenger vehicles
- Replacement brake friction material
- Replacement safety glass
- Safety helmets for motorcyclists
- Towing devices (tow bars)
- Tyres
- Trailers.

During the period under review, the unit received **4 975** approval applications and 65 applications which carried over from the previous year. Of these, 3 581 applications were processed and 1 329 were carried over to the next financial year. 97.65% of the processed applications (3 497 out of 3 581) occurred within the target of 120 working days.

### Inspections

As the inspectorate of MIBs of motor vehicles, automotive inspectors conduct inspections at the physical location of the MIBs to recommend their registration to the DoT. Market surveillance inspections are also conducted after approval is granted to confirm conformity of production. During the period under review, the NRCS implemented a risk-based approach to inspections, focusing on products entering South Africa through various ports of entry and the point of manufacture or premises of a builder.

During the financial year, the business unit conducted 3 744 inspections, including 2 623 source inspections, where source refers to the point of manufacture or port of entry, and 1 121 retail inspections. The negative variance in source inspections was due to the increased presence of automotive inspectors in retail outlets in outlying areas of South Africa.

### Sanctions

The NRCS continues to eradicate non-compliant products from the South African market. A total of 158 Section 15 directives were issued to clients for non-compliant products, which is a considerable increase from the previous financial year where 53 directives were issued. The increase in the number of directives is attributed to the delegation of powers that were given to the principal inspectors for issuing of directives at the point of non-compliance or inspection. The identified non-compliant products, valued at R25.8 million, included lights, brake material, motorcycle helmets and safety glass, among others.

### Quality management

The Automotive Business Unit underwent a successful South African National Accreditation System (SANAS) audit during the financial year, and resolved findings that were raised during the previous financial year.

## Stakeholder engagement

The Automotive Business Unit actively participated in the following stakeholder interactions:

- Working Party 29 Stakeholders Forum
- DoT/NRCS Automotive Forum
- DoT Vehicle Technical Committee and Abnormal Loads Committee
- DoT Interprovincial Policies and Procedures Meeting
- SAPS Vehicle Crime Forum
- National Association of Automobile Manufacturers of South Africa/NRCS Automotive Forum
- Retail Motor Industry Organisation
- Institute of Road Transport Engineers Technical Committee
- South African Bus Operators Association Technical Committee
- South African Tyre Manufacturers Association
- Various SABS Standards Technical Committees.

## Highlights

The increased border activities on new tyres highlighted the fact that even those companies that raised concern over the NRCS processes were found to be not complying with compulsory specifications and technical regulations. As a result, many consignments of regulated automotive products were detained and consequently, requests for sales permits were lodged by such importers.

A customer relationship management tyre homologation project was launched in an attempt to resolve the current volumes of applications received daily.

The criteria for approval of components were improved to contribute to the Industrial Policy Action Plan (IPAP) objective of locking out non-compliant products.

The unit successfully undertook an initiative to review the internal business procedures. The review of the inspection and approval procedures was completed and implementation will take place early in the new financial year.

## Challenges

There are 'grey areas' in the current legislation which allow MIBs to evade certain aspects of continuous compliance after initial approval. The NRCS has identified areas of concern which it is addressing in collaboration with the DoT.

A limited number of local accredited testing facilities exist for certain products, such as tyres, motorcyclist safety helmets, brake fluid and category L vehicles. Further, where such facilities exist, their testing capabilities, especially regarding brake friction material, are continuously being challenged by the industry. The NRCS is working closely with industry associations and testing houses to resolve these challenges.

A number of automotive component importers are knowingly importing regulated products without the required approval. Such products pose a danger to consumers as they may not be compliant with the prescribed VCs and therefore unsafe.

# Chemicals Materials and Mechanicals



## Overview

The Chemicals Materials and Mechanicals (CMM) Business Unit is responsible for the administration of compulsory specifications (VCs) that cover the following industry sectors:

- Personal protective equipment (PPE): safety footwear and respiratory protective devices
- Flotation devices and swimming aids, firearms and associated products (firearms and shooting ranges)
- Flame-producing devices (paraffin stoves, heaters and cigarette lighters)
- Health-related products (microbiological safety cabinets and disinfectants)
- Construction materials (cement, safety glazing and treated timber)
- Products that affect the environment (plastic carrier bags, etc.).

The following regulatory functions are performed on behalf of the following government departments:

- Department of Health – regulation of microbiological safety cabinets, disinfectants and detergent disinfectants
- Departments of Labour and Mineral Resources – regulation of various types of PPE, such as respirators and breathing apparatus
- Department of Energy – regulation of paraffin stoves and heaters
- SAPS – regulation of shooting ranges and firearms

- Department of Environmental Affairs – regulation of plastic bags and plastic carrier bags.

The activities of the CMM Business Unit, in the administration and maintenance of VCs, involve the processes of pre-approval, market surveillance inspection, sampling and sanctioning. The unit, with a staff complement of 27, currently regulates 15 VCs covering vast product categories in the CMM sector.

## Overall performance

### Market surveillance

The CMM Business Unit conducted 4 866 surveillance inspections against an annual target of 5 600 for the financial year 2015/16. The business unit faced a challenge in the implementation of the treated timber, pressurised stoves and safety glazing VCs. A strategic decision was taken to bring about a balance on all outstanding key deliverables. This decision sought to prioritise the increased applications, thus taking seven surveillance inspectors to process these applications. The implementation of the specifications required in-depth training and stakeholder engagement, which consumed significant production time. As a result of all the interventions successfully



implemented, a negative variance with regards to surveillance targets has been realised.

The CMM continues to play a significant role in awareness campaigns with respect to fire safety. These campaigns aim to educate various communities in the correct usage and identification of compliant paraffin stoves and heaters, as well as eradicating non-compliant stoves from vulnerable consumers. During the year under review, the NRCS identified a number of non-compliant paraffin stoves that were in use, especially in informal settlements. This culminated in a programme funded by the NRCS and **the dti** to exchange non-compliant stoves for compliant and safer stoves.

### Approvals

The CMM Business Unit issues pre-market approvals for regulated products. The premarket approvals are issued after evaluating submitted evidence of compliance against the relevant VCs. During the period under review, the business unit achieved 55.6% of its set target of processing premarket approvals within the turnaround

time of 120 working days because of the dormant VCs of treated timber and safety glazing, whereby application forms were submitted to CMM as long ago as 2009/2011. The implementation only took place in 2015. A total of 235 approval certificates were issued to various commodities regulated by the unit. Out of 499 applications, 39 were rejected during the period under review. The rejected applications were due to the non-submission of identified corrections by applicants and incomplete or partial test reports.

### Sanctions

During the 2015/16 financial year, a total of 146 Section 15 directives were issued to manufacturers, importers and retailers of non-compliant goods for failure to comply with the health and safety requirements as detailed in the various VCs. The non-compliances included, among others, failure to meet marking and performance requirements as stipulated in the relevant VC. The performance results were obtained from samples drawn from the market and sent for testing to an accredited laboratory. Subsequent to inadequate corrective actions

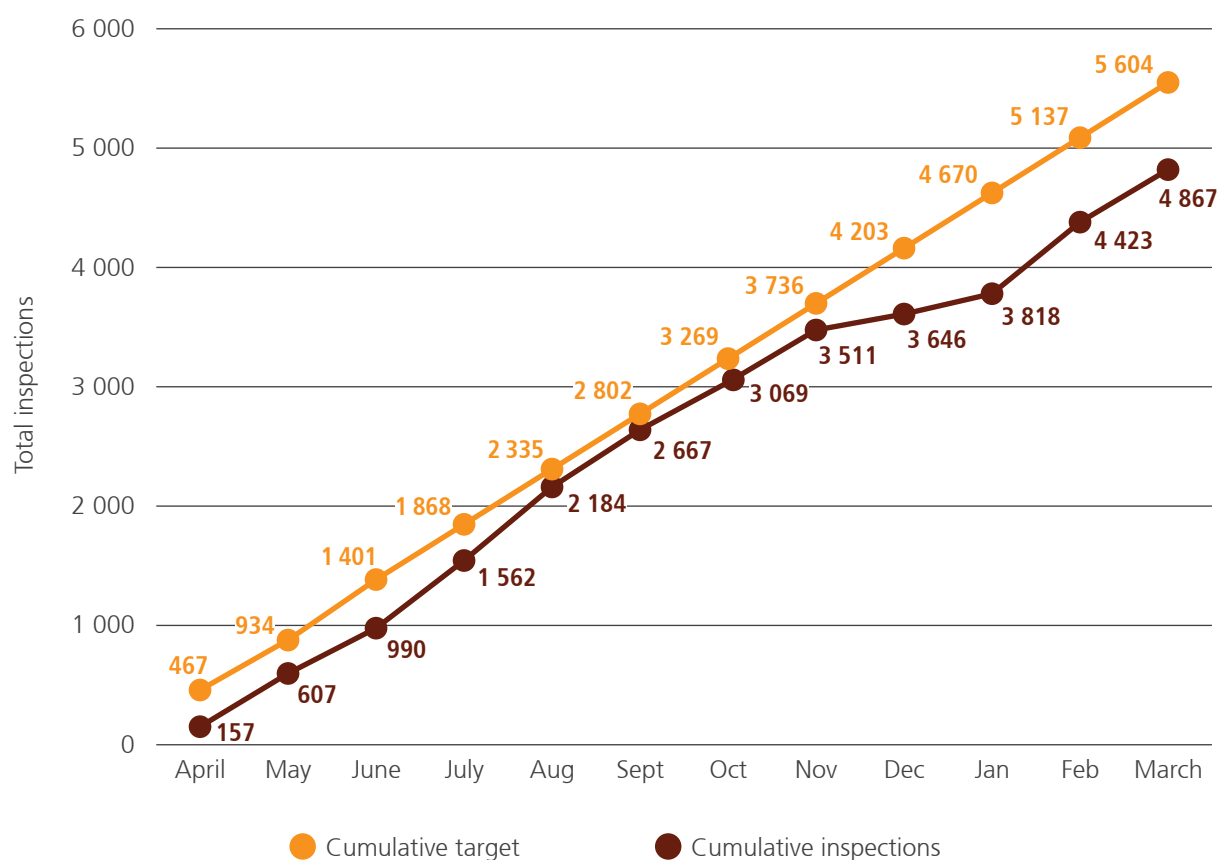


Figure 1: CMM Unit performance 2015/16

received, 84 of the Section 15 directives resulted in further submission to the Technical Committee for a decision to destroy, send back to country of origin or recycle the non-compliant products. The total value of non-compliant products amounted to R6.3 million.

### Non-compliances

The Technical Committee directive to destroy non-compliant products culminated in a destruction event, addressed by the Minister of Trade and Industry, Dr Rob Davies. This event was held in Cape Town on 24 March 2016. The total value of products destroyed at this event amounted to approximately R36 million. Products included CMM products that were confiscated during the period under review, such as:

- Non-pressurised paraffin stoves
- Paraffin heaters
- Plastic carrier bags.

### Stakeholder engagement

As part of the NRCS' stakeholder engagement strategy, the unit held six industry meetings. These meetings aimed to address industry concerns, provided a platform to discuss industry's challenges in complying with the regulatory requirements, and created awareness with regard to the implementation of Safety Footwear Compulsory Specification. Industry meetings were held with two industries for the implementation of the treated timber and the implementation of the pressurised stoves VCs.

Other stakeholders that formed part of our various campaigns include:

- SAPS Border Police
- SARS
- Hawks
- Department of Forestry and Fisheries (DAFF)
- JMPD
- HESASA
- City of Johannesburg
- City of Cape Town
- Buffalo City Municipality
- University of Johannesburg
- SANDF
- Fire Disaster Management
- Community Leaders
- National Consumer Commission
- BCOCC.

## Highlights

### Winter Campaign

The NRCS and the National Consumer Commission embarked on educational and awareness campaigns in Tembisa and Kya Sands to prevent shack/house fires that arise from the use of non-compliant paraffin stoves and that leave vulnerable communities stranded and devastated. Due to Kya Sands previously being affected by fire-related disasters, a community education workshop was held. Door-to-door walkabouts, while distributing educational material and interacting with the community formed part of the activities. The campaign also included inspections on winter-related products to ensure that these products meet prescribed standards or VCs.

Non-compliant products were confiscated and necessary sanctions were imposed on those traders who were in transgression of the regulations.

As a result of the door-to-door walk-about in Tembisa and Kya Sands, 1 979 households were covered and seven illegal traders were arrested for trading in paraffin stoves. This led to further investigations in Bree Street – the area reported as the source of the illegal paraffin stoves. Further inspections were conducted during the two-day raid in Bree Street, Oriental Plaza and its surroundings. Non-compliant goods confiscated during this awareness campaign amounted to approximately R270 000.

### Joint operation

A joint operation consisting of members of the NRCS, SARS, the Hawks and DAFF was conducted at two warehouses in Port Elizabeth. On completion of the joint inspection, the team confiscated numerous non-compliant products found in violation of legislation. SARS and the DAFF registered successes during the operation. The total amount of non-compliant goods confiscated by the NRCS is valued at approximately R650 000.

Another joint operation was held with SAPS Border Police at various warehouses in the Western and Southern Cape, which resulted in the confiscation of non-compliant paraffin stoves worth R19 000. The non-compliant products confiscated during these joint inspections include, among others, flame-producing



As a result of the door-to-door walk-about in Tembisa and Kya Sands, 1 979 households were covered and seven illegal traders were arrested for trading in paraffin stoves.

devices, plastic carrier bags and swimming aids. Joint operations were held with other government agencies, including the Border Control Operational Co-ordinating Committee, across the regions at the ports of entry and included the Operation Fiela, the national interdepartmental operation aimed at eliminating criminality from communities. Operational highlights include:

- Winter campaign is planned to be rolled out nationally
- Multi-skilling training in progress
- Meeting with SARS Eastern Cape
- African Waste Week Conference attended by the environmental protection inspectors
- Industry meeting held with the pressurised paraffin stove industry.

### Training

Inspectors in Gauteng, KwaZulu-Natal, and the Eastern and Western Cape were trained in the treatment of timber – encompassing wood preservation processes and approval of applications. The environmental inspectors in Gauteng attended a bio-plastics workshop offered by the Department of Environmental Affairs, while inspectors in the other provinces attended the African Waste Week Conference held in Cape Town, sponsored by the Department of Environmental Affairs.

A principal inspector, accompanied by the RR&D specialist, attended international training on the production of cigarette lighters and the applicable safety standards in France. The training proved to be highly beneficial to the attendants in providing a training opportunity as there are no local manufacturers of cigarette lighters in South Africa. The training provided insights into the production process of cigarette lighters and product safety concerns.

### Challenges

A criminal case was opened in Durban involving the attempted fraudulent release of a container profiled and stopped for physical examination. The container was inspected by the border enforcement team of the NRCS and was found to contain non-pressurised paraffin stoves. Proof of compliance could not be provided by the importer and hence the container remained detained. The incident of attempted fraudulent release was brought to the attention of the NRCS by the shipping line. The case is under investigation by SAPS and the NRCS.

As a result of the business decision to prioritise the approval of applications, surveillance inspectors were trained to assist. Training areas involved safety footwear, treated timber and pressurised paraffin stove applications. The training added value to the unit as employees gained multiple skills resulting in a diversified inspectorate.

The protracted revision of the memorandum of understanding between the NRCS and the Department of Environmental Affairs presented a challenge for the business unit. Surveillance inspectors were reassigned to assist the approval section.

### Conclusion

This report highlights the importance of conducting joint operations with other governmental agencies to continuously maintain compliance within the South African market. Non-compliant products remain a problem since these products continue to find their way into the consumer market. It is therefore imperative that the NRCS finds ways, not only to reach and educate consumers, but also to make it easier for consumers to identify a compliant product. Multiskilling and effective management continues to be tools that will support the CMM Business Unit to effectively protect the South African consumer, thereby contributing positively to the NRCS fulfilling its mandate.

## Electro-technical



### Overview

The Electro-technical Business Unit, with a total staff complement of 42, currently regulates 18 compulsory specifications (VCs) covering approximately 542 product categories in the electrical and electronic technology sectors. The regulated products include household appliances, power tools, ICT equipment, audiovisual equipment, lighting, and electrical components, such as plugs, adaptors and switches. In addition, the business unit regulates on behalf of government departments, such as the Department of Labour, aspects regarding the approval of components of fixed electrical installations, and on behalf of the Independent Communications Authority of South Africa (ICASA), aspects concerning the electromagnetic compatibility and interference of certain electrical and electronic apparatus.

The regulated products are characterised by high degrees of product innovation and shortening product lifecycles. The barriers to entry for importers and retailers are low, and the market typically has many entrants and exits from time to time, which makes it difficult for the NRCS to know all the players at any given time, particularly those in the retail space.

The regulatory supervision and market surveillance strategy deployed is risk-based and focuses on conducting inspections at source, with a reduced focus on retailers. The sources of products include ports of entry, manufacturers and importers. A large percentage of the regulated products within the electro-technical environment are imported into South Africa.

### Overall performance

#### Inspections

A total of 4 890 market surveillance inspections were conducted against a planned target of 4 400, representing a positive variance of 11.2%. Of the total market surveillance inspections conducted, 3 785 (77.3%) were within the regulated scope. The inspections conducted at source numbered 2 761, i.e. approximately 56% of the total inspections.

The inspections were distributed by region as follows: 36.7% in Gauteng, 30.3% in KwaZulu-Natal, 20.9% in the Western Cape, and 12.1% in the Eastern Cape. During the period under review, a total of 155 samples

were taken from the market for testing, at a cost of approximately R2 million.

The standby power requirement for the new compulsory specification, VC 9008: Energy Efficiency of Electrical and Electronic Apparatus, was implemented during the period under review. The initial baseline testing done revealed that approximately 30% of audiovisual and related equipment, such as televisions and video players, did not meet the minimum standby power requirements of 1 watt.

### Approvals

The total approvals granted in the period under review increased by approximately 27% compared to the previous financial period, from 6 647 to 8 458. For the period under review, approximately 69% of the approvals were granted within the target period of

120 days. During the period under review, the volume of applications for Letters of Authority (LoAs) increased by approximately 34%, from 11 282 to 15 155 (this includes 3 577 applications carried over from 2014/15 to 2015/16).

The approval trends are shown in the graph below, with comparisons to prior periods. At the end of the financial period under review, there were 4 285 applications that were carried over to 2016/17. A total of 805 applications were closed, consisting of applications submitted and later cancelled by clients, pending applications which were not corrected within 30 days, duplicate applications, and applications rejected for various reasons, including wrong test reports, use of the incorrect regulation, and non-compliance to requirements of the compulsory specifications.

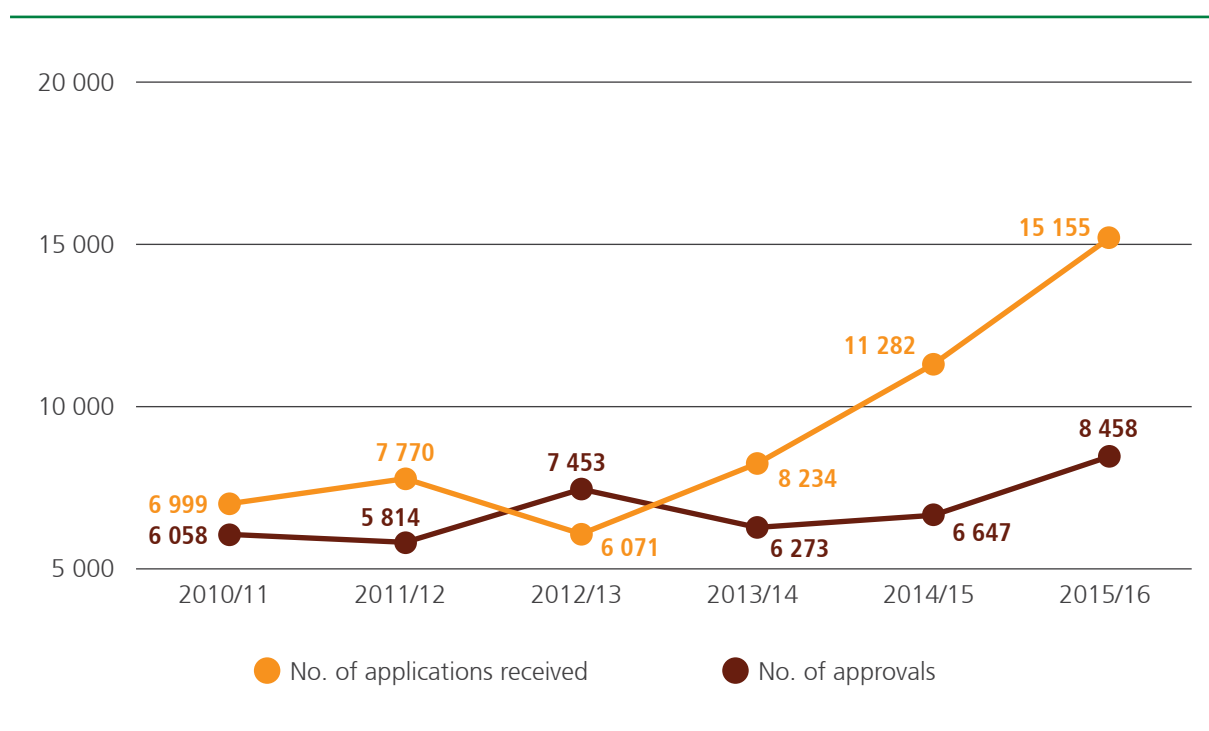


Figure 2: Electro-technical approval trends, 2010/11–2015/16

**Table 1: Non-compliant products distributed by region**

Region	KwaZulu-Natal	Gauteng	Western Cape	Eastern Cape	Total
R'million	71.6	5.87	0.96	2.1	80.53

### Sanctions

A total of 496 Section 15.1 directives were issued and the value of non-compliant products found amounted to approximately R80.5 million, with the majority of the non-compliant products found at the ports of entry. The non-compliant products distributed by region and value are shown in Table 1, with KwaZulu-Natal accounting for approximately 89%. The non-compliant products included power supplies, fans, bar fridges, water heaters, cables, lamp holders, lights, circuit breakers, television sets, and audio amplifiers.

### Stakeholder engagements

The business unit and its representatives from both management and inspector levels, participated in various local, regional and international engagements, in line with IPAP, to foster closer collaboration through multi-sectoral forums, including agencies such as SARS and the National Consumer Commission (NCC).

International visits and stakeholder meetings included those organised by the International Electrical Commission (IEC) in Dubai and Argentina to discuss, among other things, the mutual agreements on test reports and approval of products, regulatory issues, and the interpretation of standards. The benchmarking of compliance enforcement regimes was conducted in Brazil and Australia, in partnership with the Department of Energy (DoE), contributing to the development and deployment of an enforcement model for energy efficiency.

Within the region, business unit representatives participated in the SADC Technical Barriers to Trade (TBT) Expert Group Meeting. The SADC Industrialisation Strategy and Roadmap was discussed, among other things.

On the local front, several stakeholder engagements were held with government agencies and the regulated industry to discuss regulatory policy and compliance matters. Some of the key engagements were with the European Chamber of Commerce, the New Zealand

Embassy, the Competition Commission, the Border Control Operational Co-ordinating Committee at the various ports of entry, and the Consumer Goods Council of South Africa. The turnaround time for LoAs was a common point of discussion.

### Highlights

#### Non-compliant product destructions

The NRCS and SARS jointly undertook non-compliant product destruction events in Cape Town and Durban, destroying approximately 3.3 million non-compliant incandescent lamps in support of the national imperatives on energy efficiency, as stipulated in the National Energy Efficiency Strategy (2012). The Minister of Trade and Industry, Dr Rob Davies, delivered the keynote address in Cape Town.

Approximately R42 million worth of non-compliant electro-technical products were destroyed at the two events, with Cape Town accounting for R36.6 million. In addition to the incandescent lamps, the other products that were destroyed included approximately 76 000 compact fluorescent lamps, Christmas lights, socket outlet adaptors, water heaters and flexible cords.

#### Joint operations with other government agencies

The unit participated in several joint operations with other government entities. The joint operations included:

#### *Multilateral entities projects*

The business unit participated in a multilateral project in Bree Street, Johannesburg, on 8–9 February 2016. The participating parties were the NRCS, SARS, the Johannesburg Metropolitan Police Department, SAPS, the Economic Development Unit in the City of Johannesburg, the EMS and the NCC. Approximately R248 000 worth of non-compliant products were confiscated during the raid. The products included toilet paper, paraffin stoves, heaters, cellphone chargers, plastic bags, adaptors, head lights, and incandescent bulbs.

### *Joint operations with SAPS*

Two joint NRCS/SAPS operations were conducted in the Western Cape during September 2015, covering Cape Town, Knysna, Mossel Bay and George. The approximate value of non-compliant products confiscated was R60 000. The products included cord extension sets, adaptors, Christmas lights and lampholders.

### *Maintenance of SANAS accreditation*

The business unit maintained its SANAS accreditation after an assessment by SANAS on 9–10 March 2016. During the assessment four non-conformances were raised. The non-conformances centred on the lack of or inadequacy of reviewing and updating mechanisms for system documentation, in particular the quality manual, the sampling procedure, the accreditation schedule, and the handling of obsolete documents. The business unit is in the process of addressing the findings.

### **Major challenges**

The unit was faced with the storing and destruction of large volumes of products, including 26 containers of bulbs, which all came at a high cost. The option of returning the products to the countries of origin was explored in the review period and found to be feasible, although there was the risk of the products returning to South Africa through other means. In addition, the return to country of origin required more efficient logistics, with quicker turnaround times to enable the re-export of shipments within the 28-day window given at the container depots before containers start being levied for storage costs.

The long turnaround times, exacerbated by challenges with the customer relationship management system and the increasing volume of applications in approvals, continued to be a challenge. The risk-based approach was developed during the period under review and this approach is anticipated to be implemented in the next financial year, enabling applications for renewals and low risk applications to be processed through an expedited administrative process.

### **Conclusion**

A total of 4 894 market surveillance inspections were conducted against a planned target of 4 400, representing a positive variance of 11.2%. Of the total market surveillance inspections conducted, 3 785 (77.3%) were within the regulated scope. The inspections conducted at source were 2 761, i.e. approximately 56% of the total inspections.

The non-compliance rate for the period was approximately 10%, resulting in the serving of 496 Section 15.1 directives for non-compliant products worth approximately R80.5 million. In addition, the NRCS and SARS jointly undertook non-compliant product destruction events in Cape Town and Durban, destroying products worth approximately R42 million, which included 3.3 million non-compliant incandescent lamps.

The number of approvals increased by approximately 27% compared to the previous year, while the volume of applications also increased by approximately 34% in the same period. Challenges in meeting the approval turnaround times persisted. The risk-based approach was developed during the period under review to mitigate LoA turnaround times.

The unit continued to engage multi-sectoral forums and individual stakeholders including government agencies such as SARS, the NCC and the DoE, the regulated industry, regional forums in SADC, and international regulatory bodies in other countries, including Brazil and Australia, and the IEC forums. The business unit participated in various multilateral joint operations.



# Foods and Associated Industries



## Overview

The Food and Associated Industries (FAI) Business Unit is responsible for the health and safety of consumers by regulating compulsory specifications relating to canned meat and fish products, frozen fish products, smoked snoek, aquacultured live abalone and live oysters. These products are traded both nationally and internationally.

The FAI unit executes its functions by:

- Inspecting processing facilities and fishing vessels used to produce, process or transport food products
- Ensuring that non-compliant products do not enter the market and removing such products if discovered in the market. A risk-based approach to surveillance was adopted to improve efficiency and the effectiveness of FAI processes. Source/targeted enforcement was introduced as a measure to prevent the entry of non-compliant products into trade in South Africa
- Conducting surveillance inspections on locally produced and imported products. Port of entry surveillance entails the profiling of various containers entering South Africa and the inspection of these containers at the point of entry. Imported fishery products are taken to various cold stores and warehouses where products were sampled for inspection by the NRCS

- Issuing health guarantees for fish and fishery products that are exported. The NRCS is the Competent Authority for the issuing of health guarantees to various countries and trade groupings
- Co-operating with other food safety regulators, both nationally and internationally, and participating in food safety-related activities.

The NRCS actively participates in both the local and international (through Codex Alimentarius) standard setting processes. At national level, it works in close co-operation with several other legislators in the food environment, including the Department of Health and DAFF.

The NRCS has entered into various technical co-operation agreements with countries trading fishery products with South Africa, which act as preventative measures to ensure that safe products with the necessary health guarantees are obtained from these countries.



During the year under review, the unit participated and collaborated with various competent authorities at an international level to facilitate trade of safe food. The unit also constantly strives to keep abreast of technology and to benchmark itself against other regulators, nationally and internationally.

Overall performance

The business unit achieved most target objectives set in the 2015/16 Business Plan. The unit’s overall performance for the 2015/16 financial year remained steady when compared to the average of the past four years, taking into account the availability of natural resources, the current economic climate and

the exchange rate. The regulatory and inspection methodologies rest firmly on the assessed risk profiles of the various food commodities it regulates, and therefore 100% of inspections on high risk products, such as canned and imported products from countries where there is no official inspection agreement, are conducted, while low risk products are monitored with a predetermined surveillance programme.

Internal audits were conducted to measure the unit’s performance in terms of its documented quality management system (based on ISO/IEC 17020). Furthermore, an external audit was conducted and the unit successfully maintained its SANAS accreditation.

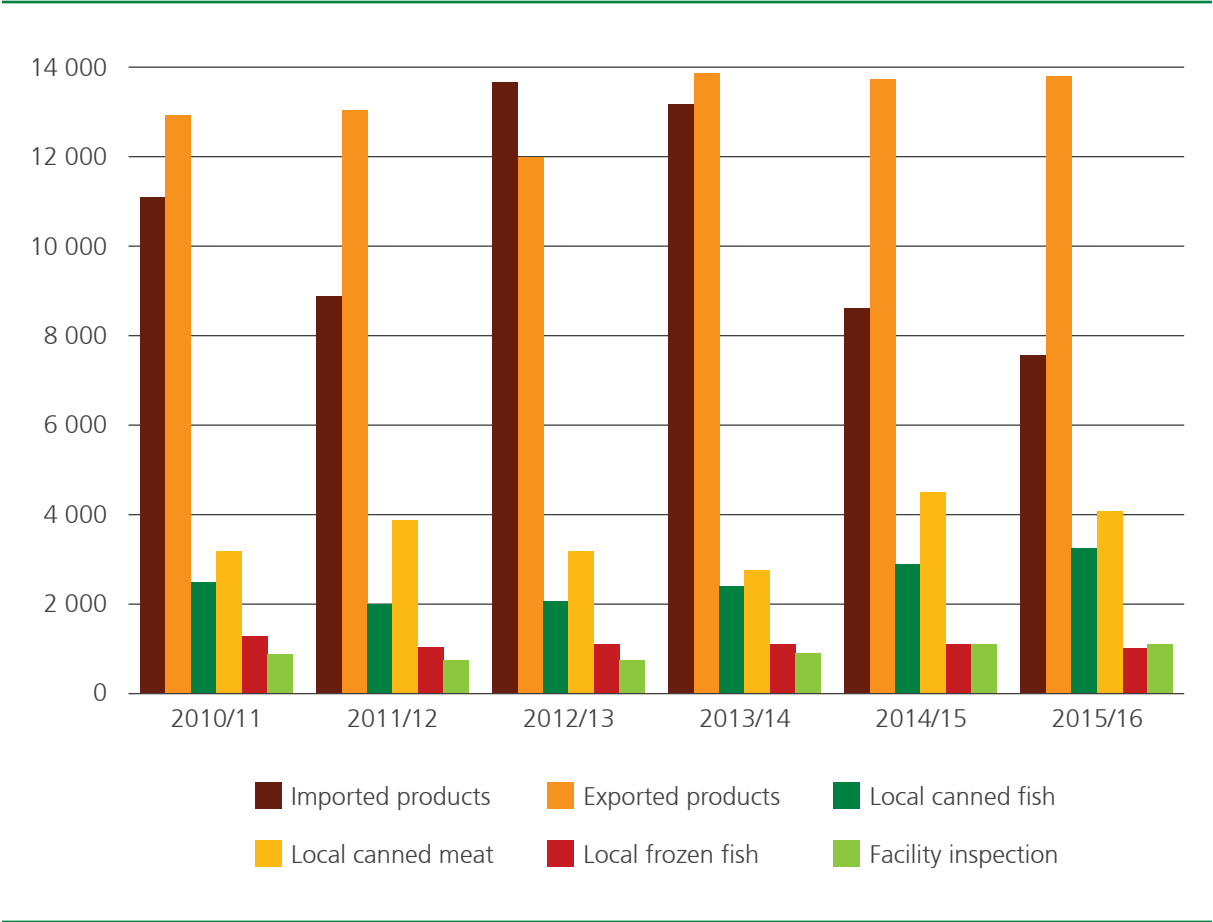


Figure 3: FAI inspection trends

## Inspections

The business unit conducted 30 578 inspections on exported, local and imported fishery and canned meat consignments and productions. In comparison to last year, the number of inspections conducted on imported products, local canned meat, local frozen fish and facility inspections decreased, while the number of inspections conducted on locally produced canned fish and export consignments increased.

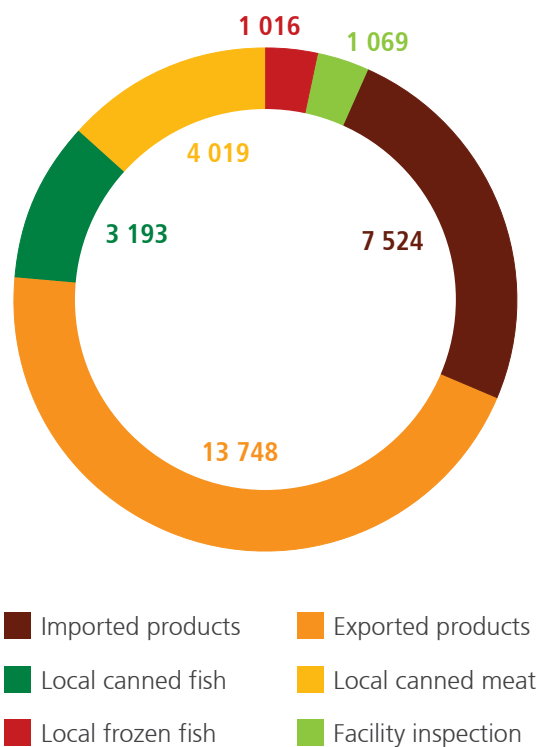


Figure 4: FAI inspections conducted in 2015/16

## Health guarantees

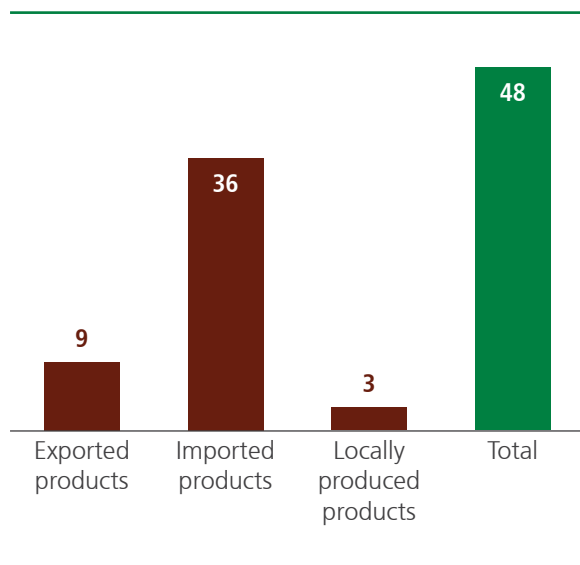
The NRCS is the Competent Authority for fish and fishery products in South Africa, and is acknowledged as such by the European Union and People's Republic of China, among others. Health guarantees are certificates that are issued by competent authorities, such as the NRCS, which comply with international food laws (Codex Alimentarius) for food products, or the laws of the importing country. These health guarantees are issued for exported products, including chilled fish, frozen fish, canned fish, canned abalone as well as live lobster, abalone and oysters. For the period under review, the unit conducted 13 748 inspections on product consignments exported to various countries, which, in comparison to last year, indicate a slight increase in inspections.

## Non-compliances

Non-compliance certificates were issued for products that did not comply with the requirements of the relevant VCs, labelling requirements as specified in the Foodstuffs, Cosmetics and Disinfectant Act, Act No. 54 of 1972, and relevant SANS standards. Non-compliance certificates were also issued for facilities or consignments that were found to be of substandard quality or which did not fully comply with certain non-food safety-related quality VC requirements.

Sales permits, which stipulate prescribed sales conditions, were issued for these products. The unit issued 32 non-compliance certificates for products found to be of substandard quality, and 102 for products that were found to be not for sale. In addition, it issued 48 directives for products that were not safe for human consumption.

The non-compliant products were either re-labelled, destroyed by industry at their own cost (under the supervision of the NRCS), or returned to the country of origin. The unit issued 48 directives for products not fit for human consumption with an estimated value of R6.35 million.



**Figure 5: FAI directives issued, 2015/16**

### National and international liaison

The NRCS continued to interact and collaborate internationally with other regulators. It entered into technical co-operation agreements with various countries, including Namibia, Mozambique, Mauritius and Thailand. These agreements are designed to ensure that foods traded between the countries are safe for human consumption and comply with all specifications and regulations. Through the FAI Unit, various joint management meetings were held with these countries during the year under review.

As the Competent Authority for the regulation of frozen and canned fish and fishery products, canned meat and smoked snoek in South Africa, the NRCS represents the country at various international regulatory forums, notably the Codex Alimentarius Commission (CAC), the Codex Committee for Fish and Fishery Products (CCFFP) and the Codex Committee for Food Inspection

and Certification Systems. In the year under review, the FAI participated in a range of international food safety standardisation processes that include food safety principles and standards, such as CAC, which resulted in the adoption of various standards.

The NRCS also participated as the leader of the South African delegation to the CCFFP where various agenda items, such as the technical guidance for histamine control in fish and fishery products, the optional quality requirements in fish and fishery products, the determination of nitrogen factors in the Standard for Breaded and Coated Fish Sticks and the sampling plans for the abalone, smoked fish and scallop standards were deliberated.

The NRCS also serve on the Board of the International Association for Fish Inspectors (IAFI), representing developing countries. The NRCS presented and participated at the 11<sup>th</sup> Session of the World Seafood Congress hosted by IAFI and the Food and Agriculture Organization where the spotlight was on food safety and inspection modernisation to facilitate imports and exports of seafood products worldwide.

Nationally, the business unit participated and contributed to the following legislation and standards setting forums:

- SANS technical committees for various food standards
- Food Legislation Advisory Group meeting, hosted by the Department of Health, where proposed food regulations and the processes leading to the implementation of these regulations in the interest of protecting consumers were discussed
- Sanitary and Phytosanitary Technical Barriers to Trade Committee meetings, hosted by the Department of Agriculture
- Interdepartmental Food Safety Co-ordinating Committee (established to co-ordinate food safety issues between food regulatory authorities) meeting.

## Highlights

One of the highlights in the year under review was the 5<sup>th</sup> Audit Mission of the Food and Veterinary Office of the European Commission from 22 February to 4 March 2016. The purpose was to evaluate the NRCS's control systems in place to govern the production of fishery products intended for export to the European Union. The NRCS, as well as processing facilities in Cape Town, West Coast and Mossel Bay areas, were audited as part of the evaluation process. The monitoring and control programmes relating to aquaculture abalones were also covered during the visit to obtain information for further assessment.

The head of the mission expressed his satisfaction at the end of the visit with the monitoring programmes implemented by the NRCS to govern the production of fishery products exported to the European Union.

The FAI is an internationally accredited inspection body and complies fully with ISO 17020 criteria for inspection bodies. As the Competent Authority for the regulation of food products and processes, ongoing confirmation of the credibility of the division's processes is paramount. The business unit was audited by SANAS and was recommended for continued accreditation.

All fishery export consignments where health guarantees were issued by the NRCS for the European Union, were accepted without any notification in the rapid alert system for food and feed from South Africa.

## Challenges

The extent and timing of local production and the importation of goods remain unpredictable and make operational planning extremely difficult. Operational activities and available resources need to be adjusted at short notice to accommodate sudden increases in imports or exports or fluctuations in local production. During the period under review, the importation of canned fish increased through the Durban port of entry, impacting on inspections. The cost-savings strategy implemented at the NRCS due to the current economic environment also impacted operations in the business unit.

## Conclusion

The FAI Business Unit contributed successfully to the NRCS's objective to protect consumers by effectively administering the relevant VCs, and enhanced the trade of good quality food products nationally and internationally. The business unit supported local industry by ensuring that only good quality and safe food products were exported. The period under review saw the second highest volume of exports in six years, and all export consignments were accepted in the international markets with no notifications being issued. In its effort to drive basic performance efficiencies, the unit constantly strives to keep abreast of new technology developments and benchmarks itself against other regulators, both nationally and internationally. Multiskilling and ongoing training programmes are one of the tools that support the business unit to effectively protect consumers. The unit continued to participate in national and international standards setting processes.

# Legal Metrology



## Overview

Legal Metrology ensures that consumers receive the quantity of goods, declared by an importer, manufacturer or retailer on a pre-package, or where a measuring instrument is used to conclude a transaction, that it remains accurate within prescribed limits of error. In short, both industry and consumers are protected, promoting fair trade.

The Legal Metrology Act (LMA) is administered by the NRCS and applies to all measurable products and services as well as any measuring instruments used and measurements made in trade, health, safety and the environment.

The main functions of the NRCS under the LMA are to:

- Make recommendations to the Minister of Trade and Industry with regard to legal metrology technical regulations
- Enforce compliance with legal metrology technical regulations
- Approve and verify measuring instruments
- Control the repair of measuring instruments

- Participate and represent South Africa at international and regional levels on matters relating to legal metrology
- Issue certificates that permit instruments or products to be sold or services to be supplied in respect of legal metrology matters
- Provide for compliance schemes and control the use of distinctive marks and verification marks.

The NRCS has implemented short- and long-term strategies to ensure the effective implementation of the requirements of the LMA. Resources have been dedicated to the development of regulations, technical regulations as well as a long-term implementation plan to ensure that the requirements of the LMA can be enforced.

The NRCS executes its mandate of promoting fair trade by:

- Ensuring that measuring instruments used for a prescribed purpose are evaluated for proper design, construction and accuracy, taking into account the South African climate and environment
- Undertaking market surveillance to ensure that importers, manufacturers and retailers of products use accurate instruments for trade and that, where manufacturers or retailers prepare pre-packages, there is no short measure
- Taking action against those importers, manufacturers and retailers that supply short measure products or use inaccurate measuring instruments
- Designating private verification laboratories to verify measuring instruments, used in terms of the LMA, on behalf of the NRCS
- Evaluating the competence of verification officers, working for private verification laboratories, who perform verification on behalf of the NRCS
- Providing traceability to national standards for verification and inspection standards used to type approve, verify and inspect measuring instruments. Traceability is the unbroken chain of calibrations or comparisons linking international standards and/or national standards to the level of verification standards used for verification and inspection
- Providing training to inspectors, and where requested, to regional legal metrology bodies (e.g. SADC member states)
- Evaluating test reports of gaming hardware and software with the view of issuing a Letter of Certification (LoC) to participants of the gaming and gambling industry, as mandated by the National Gambling Act. This is a pre-market approval mechanism to evaluate whether gaming hardware and/or software are compliant with applicable standards and technical regulations
- Providing input on legal metrology matters into national, regional and international standards, as required by SADC Cooperation in Legal Metrology (SADCMEL), the Intra-Africa Metrology System and the International Organisation of Legal Metrology (OIML).

The Legal Metrology Business Unit is accredited through SANAS under the following SANS standards:

- SANS/ISO 17020 as an inspection body for market surveillance inspections
- SANS/ISO 17025 as a mass and volume calibration laboratory for calibrating verification standards
- SANS/ISO 17025 as a test laboratory for undertaking type evaluation tests.

### Service delivery

During the year under review, Legal Metrology received 192 new applications from instrument manufacturers and suppliers for type evaluation, and issued 91 certificates of approval for instruments that have met all requirements and passed mandatory tests. The approval certificate allows the applicant to manufacture or import any number of replicas of the instrument approved for use in terms of the LMA and relevant technical requirements.

Legal Metrology received 1 105 new applications from the gaming and gambling industry for the evaluation of gaming hardware and software and 1 036 LoCs were issued. Applications carried forward to the new financial year totalled 71.

A total number of 6 440 market surveillance inspections were conducted, 1 251 more than the inspection target of 5 189 set for the year. To regulate more effectively and efficiently, the focus of market surveillance inspections remained on importers and manufacturers of pre-packed goods and measuring instruments. Market surveillance inspections carried out at source (manufacturers and importers) amounted to 83% and 17% of the inspections were carried out at retail level.

During these market surveillance inspections, 25 594 samples of products were evaluated and the following non-compliances were uncovered:

**Table 2: Sale of goods – type of contraventions**

	Incidents of non-compliance			
	2014/15		2015/16	
Short measure	4 664	18%	3 153	12.3%
Incorrect pack size	695	3%	444	3.4%
Unmarked goods	150	0.6%	859	1.7%
Other	234	1.0%	46	0.2%
<b>Total</b>	<b>5 743</b>	<b>22.0%</b>	<b>4 012</b>	<b>15.7%</b>

The downward trend in non-compliances can be attributed to the continued market surveillance inspections in the area of pre-packed goods.

With regard to measuring instruments, a total of 13 291 instruments were inspected and the following were noted:

**Table 3: Instruments – type of contraventions**

	Incidents of non-compliance			
	2014/15		2015/16	
Verification status lapsed	1 798	14.9%	1 876	14.1%
Unapproved	158	1.3%	302	2.3%
Inaccuracy	108	0.9%	138	1.0%
Technical/marketing non-compliances	67	0.6%	74	0.6%
Other non-compliances	76	0.6%	71	0.5%
<b>Total</b>	<b>2 207</b>	<b>18.3%</b>	<b>2 461</b>	<b>18.5%</b>

The verification status of measuring instruments, as well as the number of unapproved measuring instruments that found their way into the market, continues to be the main contributors to incidents of non-compliance. The upward trend in the number of identified non-compliances can be attributed to the effectiveness of inspections in the market place.

To ensure that none of the non-compliant products found their way to the consumer and that non-compliant instruments were not used in transactions, Legal Metrology market surveillance inspectors issued 4 012 embargoes for pre-packed goods,

1 858 rejections and 603 embargoes for measuring instruments. They also issued warnings to 1 247 businesses for supplying non-compliant pre-packed goods or instruments and instituted legal proceedings against 41 repeat offenders on 390 counts.

The total monetary value of the products tested by Legal Metrology market surveillance inspectors amounted to R1.962 billion. The total value of the products found non-compliant, that was either removed from the market or corrected before being sold, amounted to R106 million. This is a substantial figure if one considers that our current market coverage is below 20%.

The four SANAS-accredited calibration laboratories situated in Cape Town, Durban, Port Elizabeth and Pretoria inspected and calibrated 9 404 mass verification standards, 890 volumetric verification standards and 368 balances. The calibrations ensured that standards used by verification officers as well as equipment used by market surveillance inspectors of the NRCS were accurate and traceable to national standards.

To ensure that verification officers working for the 130 designated verification laboratories are competent, verification officers have to pass the required theoretical and practical examinations. A total number of 369 theoretical verification officer examination papers were written, of which 167 passed. Candidate verification officers who passed their practical evaluations on verifying measuring instruments amounted to 47.

Legal Metrology further provided support to SANAS, in the form of lead or technical assessors to conduct assessments on verification laboratories. A total number of 55 man days were utilised in the assessment of verification laboratories by assessors from Legal Metrology. The assessment of verification laboratories remains strategic to the NRCS because it underpins confidence in the designation of the laboratories to operate under the LMA.

### Inspectorate capacity

To ensure capacity development, Legal Metrology market surveillance inspectors received theoretical and practical training on various technical regulations as well as quality system verification procedures.



### National, regional and international liaison

During the past year, the Legal Metrology Business Unit continued to work closely with other national, regional and international regulators, as well as standard bodies in the field of legal metrology, engaging in the following activities:

The Legal Metrology Business Unit represents South Africa on 18 technical committees of the OIML, responsible for drafting model regulations (recommendations) to be used in legal metrology. Input to several of these recommendations was provided to ensure that South African requirements were considered in the development of new harmonised international requirements.

The Legal Metrology Unit hosts the secretariat of OIML Technical Committee 6 Pre-packaged Products (OIML TC 6), which deals with labelling and quantity requirements for pre-packaged goods. The secretariat assisted with collating all inputs received from CIML (the steering committee for OIML) members into draft international recommendations currently being developed or revised by OIML TC 6. To this effect, a revision of *OIML R 79: Labeling Requirements for Pre-packages* was published under the auspices of this technical committee in December 2015. By request from the International Bureau of Legal Metrology, an urgent meeting of OIML TC 6 was arranged and attended by the secretariat in Rio de Janeiro, Brazil, to address comments received from the CIML ballot on *OIML R 87: Quantity of Product in Pre-packages* with regards to the statistical method contained in the recommendation. The meeting was successful.

The head of the Legal Metrology Business Unit, as representative of South Africa, attended the CIML meeting in Arcachon, France, to review the organisation's technical progress and administrative operations. During this period the head of Legal Metrology also participated in numerous other technical committee meetings that took place at the time of the CIML meeting to ensure the development of legal metrology in the region and on the African continent. These included a seminar

on countries with emerging economies and metrology system and the Regional Legal Metrology Organisation round table meeting.

Legal Metrology provides the secretariat for the SADC MEL. The secretariat was responsible for arranging the 30<sup>th</sup> SADC MEL meeting in March 2016 in Gaborone, Botswana. The head of Legal Metrology and the regional co-ordinator also attended the SADC MEL EXCO, SADC MEL TC, the SADC Technical Barriers to Trade Expert Group and SADC MEL Project Management Committee meetings. The involvement of the business unit and the attendance of these meetings is considered valuable as it furthered the commitment of the NRCS to play a leading role in regional legal metrology matters of interest. Participation ensured that the NRCS received exposure as a leading regulator in the field of legal metrology and associated fields and that the objectives of SADC MEL were met.

To give effect to government trade imperatives underpinned in the SADC Protocol on Trade and Technical Barriers to Trade Annex in the field of legal metrology, the Legal Metrology Unit presented a two-week training course to eight market surveillance inspectors from the Zambia Weights and Measures Agency (ZWMA) at the NRCS's offices in Pretoria. The training course was fully funded by the United Nations Industrial Development Organization.

The course covered training on two harmonised regional standards namely:

- **SADC MEL Document 1** – Labelling requirements for pre-packaged products and general requirements for the sale of goods
- **SADC MEL Document 4** – Tolerances permitted for the accuracy of measurements made in terms of legal metrology legislation, including the measurement of goods when pre-packaged or when measured at the time of sale or in pursuance of a sale, and requirements for the inspection pre-packages.



Under the NRCS/Namibia Memorandum of Understanding (MoU), the Legal Metrology Unit also embarked on a pilot project with the National Standards Institute of Namibia aimed at developing an e-mark scheme for Namibia. The scheme would enhance compliance of pre-packed commodities imported into South Africa, while facilitating cross-border trading. Stakeholder engagement sessions were held with the Namibian industry and theoretical training was provided to NSI officials. This initiative is financially supported by the Physikalisch-Technische Bundesanstalt, Germany.

The Legal Metrology Business Unit chaired four SABS committees dealing with legal metrology standards, and specialists and inspectors from the unit participated in various other work groups dealing with new standards and amendments to existing standards covering legal metrology technical requirements. The involvement of Legal Metrology in these activities ensured that the NRCS remained on the cutting-edge of technological developments in the field of legal metrology.

### Stakeholder engagement

Legal Metrology assisted **the dti** in creating awareness and informing South African commerce and industry about legal metrology technical regulation requirements through meetings with various stakeholders in the

retail, cosmetics and aerosol sectors. A formal sector committee meeting for the accredited verification laboratory sector was held with the view of informing stakeholders carrying out verifications on behalf of the NRCS about the LMA requirements and implications. Legal Metrology also collaborated with the FAI Unit to ensure that imported or locally manufactured fish products complied with legal metrology requirements.

### Funding

Legal Metrology receives its principal source of funding through a government grant to the NRCS. Additional funding is generated from its calibration, verification, type approval and assessment activities. A project has commenced with the involvement of **the dti** to research and develop a suitable funding model for Legal Metrology in the future.

### Conclusion

Through Legal Metrology, the NRCS remains committed to protect the right of consumers to receive the correct quantity of goods as claimed or displayed on the labels of pre-packages or services that they receive. The Legal Metrology Unit ensured confidence in the measurements made by the South African industry that will ultimately lead to increased market access for local manufacturers.

# National Building Regulations



## Overview

The National Building Regulations (NBR) Business Unit was established in accordance with the National Building Regulations and Building Standards (NBR&BS) Act and is responsible for ensuring uniform understanding, interpretation and implementation of the Act and related regulations, including National Building Regulations and NBR Review Board Regulations.

The NBR Unit also protects the interests of citizens by:

- Pro-actively engaging with built environment practitioners and relevant industries to create regulatory awareness
- Developing and enhancing a culture of voluntary compliance by built environment practitioners, including building control officers (BCOs), by means of uniform understanding of building and related regulations
- Identifying and bridging gaps in enforcement of compliance with the legislation and technical regulations (TRs)
- Collaborating with strategic partners and fellow agencies to ensure uniformity in the built environment regulatory sphere.

The business unit's overall performance is measured against its key performance areas relating to promoting uniformity in understanding, interpretation and implementation of the NBR&BS Act and applicable building and related regulations, ensuring that buildings are structurally safe, healthy and suitable for human occupancy. The unit's key performance areas for the year were:

- Administer the NBR Review Board
- Provide technical advice to industry and other regulators on the NBRs and related matters
- Perform building defects inspections and/or architectural investigations as an impartial party on request from the Minister of Trade and Industry
- Evaluate qualifications of BCOs in local authorities.

## Overall performance

### NBR Review Board administration

The NRCS performs the secretariat function of the NBR Review Board, which was established in terms of Section 9 of the NBR&BS Act with reference to Review Board Regulations.

The Act allows any person who feels aggrieved by the decision of their local authority to grant approval to appeal the decision through the NBR Review Board, in respect of:

- Application for approval of building plans and related documentation, specifications, etc.
- Erection of buildings in certain circumstances, subject to prohibition or conditions
- Application of NBR and/or related by-laws.

The NBR Review Board's performance target is to attend to 100% of all received Review Board appeals with the Board's records of decision issued within 30 days of conclusion of the appeal hearing. For 2015/16, the NRCS received and registered ten appeal cases, which were attended to by the NBR Review Board with records of decision issued within 30 days as follows:

- Six cases concluded
- Two cases withdrawn
- One case struck off the roll
- One case referred to the High Court for decision.

### Stakeholder relationship management

To promote uniformity in understanding, interpretation and implementation of the NBR&BS Act for safety, health and environmentally friendly buildings of sound quality for human occupancy, the NBR Unit engaged in the following stakeholder consultations:

- Revision of the NBR&BS Act through **the dti**, built environment industries, as well as the industry professional practitioners, where the position statement and paper for revision of the Act was approved

- Engineering Council of South Africa – consultation on the legal opinion for the interpretation of the term 'competent person' as outlined in the NBRs
- South African Property Owners Association (SAPOA) – response to SAPOA on its submission to the Minister of Trade and Industry regarding the level of compliance in terms of the NBR&BS Act
- SAPOA – engagement on the Certificate of Occupation on properties built prior 1985, before the enforcement of the NBR&BS
- BCOSC – quarterly engagements on matters concerning uniformity in understanding, interpretation and implementation of the act by local authorities country-wide. All four BCOSC quarterly meetings for 2015/16 took place as planned, as well as the Annual Convention 2015
- The NRCS supported and participated in the launch of the Western Cape BCO Sub-steering Committee.

### Key highlights

The NRCS actively participated in a revision process of the NBR&BS Act, of which the position paper thereof was approved by Cabinet. The NRCS remains committed to the finalisation of a new Act to be promulgated with the mandate of the NRCS as the regulator clearly defined.

The NRCS also succeeded in the development, revision and implementation of the NBR Review Board's Charter, which serves as the Board's operational guideline in line with the AGSA's recommendations.

Annually, the NRCS conducts a BCO Convention, where all matters of common interests are discussed and information sharing takes place on matters relating to the built environment. The NBR Business Unit successfully convened the BCO Convention 2015 in Sol Plaatje Municipality in Kimberley, where a business improvement strategic document was developed, signed off and implemented. Results will be assessed during the next BCO Convention 2016.



The NRCS actively participated in a revision process of the NBR&BS Act, of which the position paper thereof was approved by Cabinet.

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As mentioned earlier, the NRCS built a strong relationship with SAPOA in support of uniformity in understanding, interpretation and implementation of the NBR&BS Act.

All cases were registered with the Review Board and records of decisions were issued and published on the NRCS's website.

The NRCS revised and approved Review Board remuneration rates as per the AGSA's recommendation.

### Conclusion

With the regulatory scope of buildings being mandated to the NRCS, the NBR as a business unit remains committed to promoting the uniformity in understanding, interpretation and implementation of the NBR&BS Act, thereby contributing to the construction of safe buildings.





## Regulatory Research and Development

### Overview

Regulatory Research and Development (RR&D) plays a critical role within the NRCS of ensuring continued effectiveness, efficiency and relevance of regulatory activities through the development of new, and the amendment of existing, VCs or TRs under the NRCS Act and the Legal Metrology Act.

The focus of the business unit is to continuously increase scientific and technological knowledge about the NRCS' regulatory environment, as well as venture into emerging regulatory areas in a manner that provides optimum protection of public health and safety, the environment and support the economic development of the country.

The main output is VCs and TRs published by the Minister of Trade and Industry, prescribing minimum requirements for products that are regulated by the NRCS. The RR&D Unit develops and maintains VCs and TRs for the five broad sectors under the NRCS, namely, automotive; electro-technical; chemicals, mechanical and materials; food and associated industries, building and construction materials; and for fair trade based on accurate measurements under the Legal Metrology Act.

The unit performs within the NRCS' strategic goal number one, which is primarily to develop and maintain VCs and TRs through at least the following activities:

- Identification of the need for new or amendments to the VCs and TRs, according to the latest international and national requirement
- Conduct feasibility studies, risk assessment and impact assessment in the process of determining the minimum requirements in VCs and TRs
- Collaboration with stakeholders on the determination of minimum requirements and associated conformity assessment activities in VCs and TRs
- Regulatory research to benchmark the NRCS's regulatory practices with international best practice and to inform regulatory decisions that are included in VCs and TRs
- Support the IPAP of the **the dti** by developing VCs and TRs that promote industrial development initiatives across different key action programmes, such as green industries, electro-technical, footwear, plastics and chemicals, automotive products and components and agro-processing.

## Performance

### Development and maintenance of compulsory specifications and technical regulations

In the period under review, the RR&D Unit implemented 43 different projects to develop and maintain (amend/review) VCs and TRs, which are at varying stages of completion. Fifteen involved the development of new VCs, 27 amendments to existing VCs, and one withdrawal of a VC.

Ten VCs/TRs were targeted for approval by the CEO for submission to, and publication by **the dti**, eight of which were met. This represents an achievement of 80% of the set target. The negative variance is due to the delay in finalising two other VCs because of the failure to reach an agreement with industry on the levies needed to cover regulatory cost for one of the new VCs, and poor stakeholder participation for another, which then required further meetings to ensure that wider stakeholder involvement is achieved.

One IPAP project targeted for 2015/16 was to investigate a regulatory framework for olive oil. The feasibility study concluded that the mandate for the regulation for olive oil falls under the Agricultural Product Standards Act, Act No. 119 of 1990, which has enabling provisions to adequately address the regulatory concerns and should thus be referred to the DAFF through the **the dti**.

A summary of the overall performance for the financial year follows:

**Table 4: Compulsory specifications completed during the period under review**

Compulsory specification	Amendment	New
VC 9104		Live lobsters
VC 8011	Lamp holders	
VC 8006	Flexible cords	
VC 8077	Medium-voltage electric cables	
VC 8075	Electric cables with extruded solid dielectric (300/500 V to 1 900/3 300 V)	
VC 9006	Hot water storage tanks	
VC 9105	Electrical motor-operated or magnetically-driven handheld tools, transportable tools and lawn and garden machinery	
VC 8035	Earth leakage units	

**Table 5: Draft VCs for first gazettes/Notices for public comments published by the dti**

Compulsory specification	Amendment	New
VC 8056	Passenger tyres	
VC 8059	Commercial tyres	
VC 8013	Hydraulic fluid	
VC 8054	Disinfectants and detergent disinfectants	
VC 8036	Circuit breakers	
VC 8006	Flexible cords	
VC 9006	Hot water storage tanks	
VC 9105	Power tools	
VC 8035	Earth leakage units	
VC 9104		Live lobsters

**Table 6: Final gazettes published by the dti**

Compulsory specification	Amendment	Published
VC 8031	Frozen shrimps, langoustines and crabs	24 April 2015
VC 8017	Frozen fish, frozen marine molluscs and frozen products derived therefrom	24 April 2015
VC 9088	Small arms shooting ranges	19 June 2015
VC 8023	M2/3 vehicles	18 September 2015
VC 8025	N2/3 vehicles	18 September 2015
VC 8003	Switches for fixed installations	18 September 2015
VC 8053	Replacement brake linings	23 October 2015
VC 8036	Circuit breakers	23 October 2015
VC 9002	Personal protective equipment: safety footwear	23 October 2015

### The RR&D Project Approvals Committee

Progress was made towards completion of projects, in addition to performance outlined above. Extensive research was conducted as part of several feasibility studies, risk and impact assessments during the year. The reports produced through these processes are approved by the Project Approvals Committee (PAC) of the RR&D, which is responsible for managing the progress and quality assurance. Its main role is to appraise and approve technical reports produced during project activities and to make recommendations on actions needed to improve outcomes prior to submission to the NRCS's Technical Committee.

During the 2015/16 financial year, the PAC reviewed and approved several reports as part of the process to develop/amend VCs and TRs, including one periodic review, two feasibility, three risk assessment and two impact assessment reports.

### Research projects

RR&D has progressed in developing research capability. The target to achieve two technical/scientific publications or presentations in 2015/16 was achieved. The unit accomplished the following in the research function for the period under review:

- Two technical articles were approved by the CEO, one for presentation at a scientific conference and one for external publication
- Concluded one *ad hoc* desktop study on the import approval value chain of NRCS-regulated products, which was approved by the PAC and submitted to the CEO
- The unit participated in the modelling and subsequent inputs for the draft National Regulatory Database led by **the dti**.

### Stakeholder engagement

RR&D focused on building strong stakeholder relationships directed towards encouraging participation in processes that determine regulations. Stakeholder engagement is primarily to ensure transparency and accountability in the development and maintenance of VCs and TRs. To achieve wide participation, the NRCS establishes broad-based (multidisciplinary/sectoral) stakeholder groups representing common interests and comprising experts (technical, academic and industrial), other government departments and government entities, non-governmental organisations, industry bodies, consumer bodies and other organised civil society groups as necessary.

In 2015/16, RR&D convened 21 stakeholder consultation meetings on proposed regulatory interventions. These meetings are open to any affected or interested party and are widely attended. However, more participation from small, medium and micro-sized enterprises is required and encouraged.

### National, regional and international involvement

RR&D participated in a number of regional and international engagements in an effort to enhance regional and international harmonisation of regulatory practices.

During the period under review, RR&D participated in the following national and international initiatives:

#### National forums

RR&D hosted or participated in 39 inter-governmental meetings hosted by government departments, such as **the dti**, Department of Transport, Department of Environmental Affairs, Department of Health and DAFF. This is part of the ongoing effort to foster strategic partnerships with other regulators, policymakers and industries to ensure relevance of the outcomes of the processes to develop and maintain VCs.





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NRCS officials serve in several national co-ordinating structures, such as the Interdepartmental Task Team on Food Control and the Appliance Standards, the Multi-sector Committee on Chemicals Management (MCCM), and the Labelling Group of the Department of Energy.

The unit also participated in 36 meetings of Technical Committees and related working groups of the SABS responsible for developing, adopting and maintaining South African National Standards applicable to commodities that are regulated by the NRCS.

### International liaison

The division participated in and contributed to international initiatives, by either providing technical expertise in discussion/technical documents, or attendancing meetings as national representation. In the automotive area, RR&D provided technical expert representation for South Africa in two international meetings of the WP.29 (a working party of the World Forum for the Harmonisation of Vehicle Regulations) and Whole Vehicle Type Approval, which aim to facilitate harmonisation in the automotive area. The unit also participated in one Consumer Policy Committee of the International Standardisation Organisation as part of the SABS delegation to contribute in setting policy guidelines for addressing consumer concerns in product and service standards.

### Training

RR&D staff attends training when required to improve skills and competency profiles. An individual development programme is developed for each staff member at the beginning of the financial year, subsequent to which training is provided in conjunction with the Human Resources Unit. RR&D staff members attended a variety of training in technical areas, such as the Science Behind Regulations Workshop, Understanding Food Safety Management Systems and SADC Traditional Leaders Council Regulatory Impact Assessment. Other training sessions were on international platforms, for example the standards and regulation workshop in Geneva; the Swedish Board for Accreditation and Conformity

Assessment Advanced Training Programme on Quality Infrastructure for Food Safety, funded by the Swedish International Development Agency; and a study tour to Australia on energy efficiency regulations.

The unit also provides training and makes presentations to relevant forums that deal with TRs when required.

### Challenges

- The overall time spent on developing regulations depends on many variables, some of which are outside the control of RR&D and which sometimes negatively affect timelines. The challenges include determining regulatory mandate issues in the complex and fragmented South African regulatory environment, as well as forging partnerships with other government departments/institutions that are sometimes policy directors in areas identified for possible regulation.
- Availability of SANS for referencing in proposed regulatory interventions can also result in delays. On the other hand, the lack of required testing facilities, e.g. accredited laboratories, may delay the implementation of new regulatory requirements to coincide with the availability of testing services.
- Challenges with the rapid technological changes, together with lack of participation by experts in various fields, including the availability of official research articles or relevant quantitative data to aid in comprehensive regulatory impact assessments in proposed VCs.

### Conclusion

This report presented the RR&D Business Unit's goals/objectives in support of the NRCS Strategy and its performance against those objectives in the 2015/16 financial year. Going forward, the focus will be on proactively identifying the regulatory gap of unsafe products in the scope of the NRCS's regulatory work and enhancing research capability to enable the NRCS to intelligently deliver on its mandate.



# Communications and Marketing



## Executive summary

The role of the Communications and Marketing Business Unit within the NRCS is to facilitate and co-ordinate an array of integrated communication solutions in line with the business strategy and objectives of the organisation, through internal and external communication, public relations, media liaison, marketing, branding and advertising, thereby promoting and enhancing the image of the organisation to all its stakeholders.

## Progress overview

The Communications and Marketing Unit is responsible for Strategic Goal 3, which is to inform and educate stakeholders about the NRCS. The activities of the unit are arranged in line with this goal as outlined in the NRCS Strategic Plan and the Annual Performance Plan.

## Consumer education

The unit continued in its effort to strengthen the NRCS brand and enhance stakeholder relations by working together with strategic partners, such as **the dti**, SARS

and the National Consumer Commission, among others, on various outreach programmes. The outreach programmes were undertaken in various provinces across the country to inform and deepen understanding of consumers about the regulatory function and mandate of the organisation.

The unit conducted 11 outreach programmes, in areas such as Soshanguve, Sedibeng, Msawawa, Kya Sands, Tembisa, Mokgopong and Newcastle, where multitudes of people were reached.

**Table 7: Outreach programmes conducted**

Area visited	Narrative	Number of people reached
Soshanguve	The unit attended an outreach programme at the Tshwane University of Technology and interacted with students and nearby community members	8 000 consumers visited the NRCS stand
Msawawa	The unit conducted a door-to-door campaign educating people about the role of the NRCS, working together with inspectors	1 000 households visited
Mokgophong	Working together with the Limpopo Provincial Government, the unit attended an outreach programme at the Mokgophong Sportsground	3 000 consumers visited the NRCS stand
Kya Sands	The unit, together with inspectors, conducted a door-to-door campaign educating consumers about the role of the NRCS	1 300 households visited
Tembisa	The unit conducted a door-to-door campaign, working together with inspectors	2 500 households were visited
Newcastle	The unit hosted an outreach programme at Newcastle Mall to interact with consumers	10 000 consumers visited the NRCS stand
Sedibeng	Working together with the Gauteng Provincial Government, the unit conducted an outreach programme in Sharpeville to interact with residents	5 000 consumers visited the NRCS stand

## Media liaison

### Multimedia campaign

As part of the Treasury Cost-Cutting Measures Guidelines on media buying, the unit facilitated the signing of the Memorandum of Understanding (MoU) with the Government Communications and Information Systems. Through this MoU, the Communications and Marketing Unit managed to implement a multimedia campaign by placing radio adverts and news clocks on various SABC and ETV channels to raise awareness of the organisation. In addition, taxis and buses were identified and branded as part of the campaign to increase brand recognition. More than 5 million consumers were reached through these targeted campaigns.

The unit also facilitated a live radio link-up programme with 15 community radio stations in various provinces. The programme aired during the destruction function in Cape Town on 24 March 2016, thereby providing a platform for both the Minister of Trade and Industry, Dr Rob Davies, and NRCS CEO, Asogan Moodley, to engage listeners. Through the radio link-up programme, the NRCS was able to connect with listeners from various stations educating them about the mandate of the organisation. The speech of the minister was broadcast live, followed by interviews expanding on the regulation of products. More than 3 million listeners were reached via the radio link-up. The following stations took part in the link-up:

- Bush FM
- MFM
- Cape Pulpit
- Radio Zibonele
- Atlantis
- Eden FM
- K Radio
- Vaaltra FM
- Sekgosese Community Radio
- Emalahleni FM
- Alfred Nzo Community Radio
- Jozi FM
- Radio Riverside
- Motheo Community Radio
- VUT FM.

### Media statement and interviews

The unit compiled and distributed media statements on topical issues and on various campaigns hosted by the NRCS to generate publicity for the organisation as part of its public relations activities. During this financial year, the unit issued statements, which generated coverage for the organisation, to respond to the Volkswagen emissions matter. Several campaigns and events were also undertaken, such as the launch of the Winter Campaign in Kya Sands, and the Safe Paraffin Stove Campaign which was launched by the minister in Tembisa. Furthermore, the NRCS held a destruction event in Cape Town and the BCO Convention in Kimberley. These campaigns generated positive media coverage for the NRCS and increased understanding among stakeholders. The media statements issued were covered by various media houses, such as SABC TV and radio stations, *The Times*, Power FM, Phalaphala FM, SAfm and ENCA, among others.

### Publications

To enhance communication with staff and the industry, the unit compiled 12 internal newsletters aimed at keeping staff informed about developments in the organisation and four industry-targeted publications to enhance communication with industry members as part of its targets in the Annual Performance Plan.

### Marketing

The unit used social media, such as the website and Facebook, which were regularly updated with current information to market the organisation. Marketing activities were augmented by participation in exhibitions, including the parliamentary exhibition which was organised to highlight technical institutions' successes.

### Conclusion

The unit continues to make major strides in its quest to market and promote the NRCS as a brand, and to create an understanding of its role and mandate. The unit lobbied for interview slots on various radio stations, offered commentary on topical issues coming from the media and engaged with various stakeholders, such as the Buffalo City Municipality, Consumer Goods Council of South Africa, South African Police Service, Johannesburg Metro Police Department and Shoprite-Checkers. An MoU was drafted between the retailer and the NRCS to formalise working relations and to assist the NRCS in realising its Vision 2020 of getting rid of non-compliant products from the market and promoting self-compliance to regulations by industry players.



## **Part C:** Governance Report

# Introduction

The NRCS was established on 1 September 2008, with the promulgation of the NRCS Act. As a public entity, the NRCS is guided by the PFMA. In managing its activities, the organisation strives to achieve transparency, accountability, efficiency and the effective use of resources, in an economical and responsible manner.

## Executive Authority

The NRCS is an entity of **the dti**, and complied with its obligations in terms of its Shareholder Compact by submitting quarterly reports to **the dti**. These reports were approved by the Executive Authority, being the Minister of Trade and Industry.

## Accounting Authority

The governance structure of the NRCS was amended with the promulgation of the Legal Metrology Act (LMA) on 1 August 2014, which appointed the CEO as the Accounting Authority of the NRCS.

### Governance committees

The following governance committees have been established by the NRCS and are functioning as intended:

**Table 8: Governance committee composition**

Committee	No. of meetings held	Audit Committee member	Name of member	No. of meetings attended
Audit and Risk Committee	5	Independent member	Mr S Kajee	5/5
			Mr A Cowell	5/5
			Ms N Nozibele*	2/4
		the dti representative	Mr K Naidoo*	0/1
			Mr F Britz*	2/2
			Ms Z Hlongwa*	0/2
Information Communication Technology Steering Committee	3	Independent member	Mr A Rodolo	3/3
			Mr K Paul	3/3
			Prof. T Marwala*	0/2

\* Ms N Nozibele appointed on 1 July 2015

\* Mr K Naidoo scheduled to attend one meeting and was replaced by Mr F Brits

\* Mr F Britz scheduled to attend two meetings and was replaced by Ms Z Hlongwa

\* Ms Z Hlongwa scheduled to attend two meetings

\* Prof. Marwala resigned from the committee with effect from 3 December 2015

### Audit and Risk Committee

The role of the Audit and Risk Committee is discussed on page 59.

### Technical Committee

The Technical Committee, which was previously a sub-committee of the Board, is now a management committee established to assist the Accounting Authority

in fulfilling its corporate governance responsibilities relating to technical and related matters. In brief, the committee was responsible for:

- Considering and advising the CEO on proposed compulsory specifications (VCs) or proposed amendments to VCs in terms of Section 13 of the NRCS Act
- Recommending actions to be taken against non-compliant products in terms of Section 15(3) of the NRCS Act
- Considering and advising the CEO on the regulations published in *Government Notice*

*R924* in terms of Section 36 of the NRCS Act

- Considering and advising the CEO on technical and related matters as outlined in the Legal Metrology Act
- Addressing any issues as requested by the Executive Authority and that is in the public interest.

The committee met its obligations and played a major role in the administration and destruction of non-compliant products during the financial year.

## Risk management

In managing risks, the NRCS instituted a system of internal control, focusing on financial and risk management, which included relevant policies and procedures. Through this system, management identifies threats and activities that, should they arise, may negatively impact the organisation's ability to achieve its objectives. It also creates an environment where management can prioritise risks and develop a Risk Response Strategy in accordance with the NRCS materiality framework. The Accounting Authority is responsible for ensuring that the system of internal

control is effective, efficient and transparent. During the reporting period, the NRCS conducted a risk assessment exercise at a corporate level to identify key risks.

The Audit and Risk Committee plays a significant role in ensuring compliance with good corporate governance principles and aiding the Accounting Authority in the management of the NRCS's risks. The committee also played a significant role in identifying strategic areas of concern for the NRCS.

## Internal control

The system of internal control is designed to provide cost-effective assurance that assets are safeguarded, that business process are implemented as intended and that liabilities and working capital are efficiently managed. The Audit and Risk Committee noted significant weaknesses

in the internal control environment, as well as instances of non-compliance with laid down procedures. Together with the Accounting Authority, appropriate action is being taken to deal with transgressions and to prevent the recurrence of control failures.

## Internal audit

### Key activities and objectives

The NRCS considers compliance with applicable laws, regulations, codes and its own ethical standards and internal policies to be an integral part of its business culture. Its Internal Audit Unit therefore provides

independent, objective assurance and consulting services to add value to and improve the organisation's operations. It takes a systematic, disciplined approach to evaluate and improve the adequacy of risk management, control and governance processes.



The unit is primarily responsible for the execution of operational and compliance audits, performance audits, financial audits, IT audits, forensic audits as well as *ad hoc* assignments. At present, Internal Audit is assisted by an external service provider through a co-sourced arrangement.

### Audit work done during the year

During the year under review, the Internal Audit Unit planned 30 audits project assignments, 26 of which were successfully concluded and four cancelled with consultation and approval from the Audit and Risk Committee. It also concluded the following tasks, in consultation with and approved by the Audit and Risk Committee:

- A three-year rolling Strategic Internal Audit Plan based on its assessment of key risk areas to the NRCS, having regard for current operations and operations proposed in the Strategic Plan and Risk Management Strategy
- Developed the annual Internal Audit Plan
- Developed the scope, cost and timelines of each audit set out in the annual Internal Audit Plan
- Audit reports, directed to the Audit and Risk Committee and detailing the unit's performance against the plan, to allow for effective monitoring and intervention when necessary
- Performed an external quality review as required in terms of the Institute of Internal Auditors Standard and achieved partial compliance. An action plan has been developed and is being implemented to address the few deficiencies noted from the assessment.

The Internal Audit Unit co-ordinated its efforts with those of the AGSA to ensure proper audit coverage

and to minimise duplication of efforts. The unit also assisted the Accounting Authority in maintaining the organisation's system of internal control, by evaluating controls and developing recommendations for enhancement or improvement.

It assisted the Accounting Authority in achieving the NRCS' objectives by evaluating and developing recommendations for the enhancement or improvement of internal processes, through which:

- Objectives and values are established and communicated
- The accomplishments of objectives are monitored
- Accountability is ensured
- Corporate values are preserved
- The adequacy and effectiveness of the system of internal control is reviewed and appraised
- The relevance, reliability and integrity of management, financial and operating data and reports are appraised
- Systems are established or reviewed to ensure compliance with policies, plans, procedures, statutory requirements and regulations, which could have a significant impact on operations
- The means of safeguarding assets are reviewed and, when appropriate, its existence verified
- The economy, efficiency and effectiveness with which resources are employed are appraised
- The results of operations or programmes are reviewed to ascertain whether results are consistent with the NRCS's established objectives and goals, and whether the operations or programmes are being carried out as planned
- The adequacy of established systems and procedures are assessed.

## Fraud and corruption

The NRCS is committed to 'zero tolerance' towards fraud and corruption. A Fraud Prevention Policy, Fraud Prevention Plan and a Whistle-Blowing Policy are in place as part of its efforts to manage and reduce fraud. These policies are aimed at promoting a culture of whistle-blowing. In addition, a Fraud Hotline is in place, which is independently managed by an external auditing firm and which guarantees the anonymity of whistle-blowers.

During the financial year, five fraud and corruption-related cases were reported through the hotline and are currently under investigation. Customer complaints were also received on the Fraud Hotline, and were directed to the Quality Management Unit for resolution.

# Minimising conflict of interest

The NRCS has a Conflict of Interest Policy which guides employees with regards to potential conflicts of interest and acceptance of gifts from suppliers or regulated organisations. NRCS employees are required to declare their financial interests annually, as well as for each project that requires a decision of a financial nature. All gifts above a monetary value of R350 must be declared

and entered into the Gifts Register. To minimise potential conflicts of interest, no NRCS employee is allowed to undertake remunerative work outside of the NRCS without prior approval. For the period under review, a total of 59% of NRCS staff submitted documented evidence of declaration of financial interests.

## Code of conduct

The NRCS has a Code of Ethics Policy which guides and commits management and employees to high ethical standards and conduct. The policy is available to all

NRCS employees for perusal, and guides employees on how to manage and behave when interacting with stakeholders.

# Health, safety and environment

The NRCS operates in compliance with Section 17(5) of the Occupational Health and Safety Act, Act No. 85 of 1993, and a functioning structure is in place to deal with health

and safety matters. During the reporting period, health, safety and environment representatives were formally appointed and health and safety committees were in place.

## Company secretary

The company secretariat function was transferred from the Legal Unit to the Governance and QMS Unit with effect from 1 April 2015. The mandate of the

secretariat is mainly derived from the NRCS Governance Framework that was implemented on 2 June 2015.

# Social responsibility

The NRCS, having conducted market surveillance inspections, identified a number of non-compliant non-pressure paraffin stoves that are available on the market, especially in informal settlements. These non-compliant, unsafe, non-pressure paraffin stoves pose a fire risk.

During the year under review, the NRCS, together with the NCC and **the dti**, distributed compliant paraffin stoves in exchange for non-compliant stoves in Kya Sands and Tembisa. In total, the NRCS distributed approximately 3 000 compliant paraffin stoves as part of its social responsibility initiatives.



# Audit and Risk Committee Report

## Audit and Risk Committee responsibility

During the period under review, the Audit and Risk Committee has complied with its responsibilities arising from Section 2.4 of the National Treasury Internal Audit Framework of 2009. The committee operates in terms of approved Terms of Reference in the form of the Audit and Risk Committee Charter, and has conducted its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. The Audit and Risk Committee Charter was reviewed and re-affirmed during the committee's October 2015 meeting.

## Effectiveness of internal control

The system of internal control is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed.

From the various reports submitted by Internal Audit, the committee noted the persistent significant weaknesses in the internal control environment, relating to HR management, performance information management, revenue management, risk management and IT controls. The committee also noted with concern that line management have not adhered to dates committed to in their action plans and management's response to audit findings.

Together with the CEO, appropriate action is being taken to deal with transgressions and to prevent the recurrence of control failures. Management was requested to establish a project to address the revenue qualification on a sustainable basis and is implementing a plan to address control weaknesses. Regular progress reports will be submitted to the Audit and Risk Committee.



## Internal audit

An Internal Audit Unit was established and is supplemented by resources from a specialist firm until such time as it can internally perform all of the work required in terms of the approved Internal Audit Plan. The unit was subjected to a quality assurance review, which indicates that it partially conforms to the IIA standards. An action plan has been tabled to address the recommendations made, and its implementation will be monitored by the committee.

## Auditor's report

The AGSA issued a qualified audit opinion in 2015/16 based on one issue –the completeness and timing of revenue, mainly levies receivable. In previous years, the NRCS also received a qualification regarding fixed assets and payroll, which have been addressed.

Management has taken many actions to address the revenue qualification, including the gazetting of quarterly levy returns, obtaining import information from SARS and implementing a CRM system. However, the committee still expects the revenue qualification to recur, or at least an emphasis of matter (regarding material adjustments after 31 May 2016), because of the quantum of work which still needs to be done.

## Review of budget and Annual Performance Plan

The committee noted the reduction in the NRCS's baseline grant by R24 million for 2015/16 and R36 million for 2016/17. In addition, the NRCS's expenses have increased significantly as a result of the labour and management settlements over the

past two years, resulting in forecast budget deficits of R61 million in 2015/16 and R76 million in 2016/17. These deficits are expected to be financed by releasing funding from the NRCS's reserves. The committee has flagged its concerns regarding the sustainability of the organisation without a significant increase in revenue from levies. The establishment of the Border Management Agency (BMA), which will take over some of the NRCS's responsibilities, will impact on the organisation. It is expected that some functions, staff and budgetary allocations will be transferred to the BMA. The NRCS continues to engage in the multi-departmental team overseeing this project.

### Evaluation of quarterly reports

The Audit and Risk Committee is generally satisfied with the content and quality of the quarterly reports for both finance and performance information, as prepared and issued by management in terms of the PFMA. The Audit and Risk Committee has:

- Reviewed and discussed the quarterly financial reports with management
- Reviewed the appropriateness of accounting policies and practices in the quarterly reports.



**Mr Sikkie Kajee**  
**Audit and Risk Committee Chairperson**  
29 July 2016



## Part D: HR management

# Introduction

The Human Resource Unit's main objective is to ensure that the NRCS is capacitated with competent, effective and adequate human resources that will ensure that its mandate is carried out efficiently and effectively.

## Overview of HR matters

### HR priorities for the year

The business unit's objectives for the year were as follows:

- To ensure that the NRCS has the necessary capacity to deliver on its mandate by recruiting the right people for the right positions at the right time in line with its policies and relevant employment legislation
- Develop a Workplace Skills Plan to ensure enforcement of the Skills Development Act, Act No. 97 of 1998, within the organisation by ensuring that employees have the required skills and competencies
- Promote sound employee relations
- Ensure integrated employee wellness programmes and occupational health and safety.

### Workforce planning framework

An HR Plan was compiled outlining the distribution of the workforce, recruitment targets and training to be provided within the NRCS.

### Employee performance management framework

A new performance management framework was introduced in the financial year to assist in ensuring that performance is monitored and measured accordingly. Workshops were conducted to get a buy-in and ensure that employees understand the performance tool utilised. The new performance management framework was introduced to ensure that employee performance is aligned to the strategic goals of the organisation and comply with the Annual Performance Plan.

### Employee Wellness Programme

The Employee Wellness Programme within the NRCS is divided into two parts, one overseen by the HR Unit and the other outsourced to an independent company that provides professional assistance to employees as far as their emotional wellbeing is concerned. During the period under review, newsletters were published on a monthly basis on different health conditions, work-life balance and financial wellness. Consultations on wellness issues and medical/health conditions were conducted as required and referrals were made accordingly. Various group sessions were also provided to NRCS employees and wellness days were conducted in all the regions.

### Policy development

The HR Unit embarked on a project to review the NRCS's HR policies to align them to the wage agreements signed and to relevant legislation.

### Achievement highlights and challenges faced

Wage agreements were concluded within the period under review, and 80% of the agreement was implemented within the agreed timelines.

### Future HR plans/goals

- To automate and take ownership of the payroll system as it is currently manual and outsourced to an external service provider.
- To review and revise fundamental roles, responsibilities, processes and accountabilities.
- To realign the NRCS's organisational policies, people, process and technology.
- Optimise HR's business processes to ensure organisational efficiency.
- Integrate the entire HR value chain from the HR governance framework to service delivery.

# HR oversight statistics

## Human Resources Expenditure

Table 9: Personnel costs by programme, 2015/16

Programme	Total expenditure (R'000)	Personnel expenditure (R'000)	Personnel cost as a % of total expenditure	Average personnel cost per employee (R'000)
Develop, maintain and administer VCs and TRs	7 884	6 984	88.58%	698
Maximise compliance with all specifications and TRs	198 450	176 746	89.06%	749
Inform and educate stakeholders about the NRCS	9 099	4 061	44.63%	580
Ensure an optimally capacitated institution	56 132	35 763	63.71%	715
Administration	36 746	16 289	44.33%	440
<b>Total</b>	<b>308 311</b>	<b>239 843</b>	<b>77.79%</b>	<b>705</b>

Table 10: Personnel costs by salary bands, 2015/16

Salary bands	Personnel expenditure (R'000)	% of total personnel cost	Average personnel cost per employee (R'000)
Contractors	810	0.34%	48
Interns	499	0.21%	45
Skilled	35 190	14.67%	476
Professionally qualified	140 611	58.63%	818
Senior management	58 331	24.32%	926
Top management	4 402	1.83%	1 467
<b>Total</b>	<b>239 843</b>	<b>100.00%</b>	<b>705</b>

**Table 11: Salaries, overtime, home owners allowance and medical assistance by programme, 2015/16**

Programme	Salaries		Overtime		Home owners allowance		Medical assistance	
	Amount (R'000)	Salaries as a % of personnel cost	Amount (R'000)	Overtime as a % of personnel cost	Amount (R'000)	HOA as a % of personnel cost	Amount (R'000)	Medical assistance as a % of personnel cost
Develop, maintain and administer VCs and TRs	5 407	77.42%	69	0.99%	75	1.07%	323	4.62%
Maximise compliance with all specifications and TRs	125 787	71.17%	2 408	1.36%	3 149	1.78%	6 634	3.75%
Inform and educate stakeholders about the NRCS	3 019	74.34%	-	-	86	2.12%	124	3.05%
Ensure an optimally capacitated institution	26 331	73.63%	175	0.49%	584	1.63%	1 216	3.40%
Administration	13 206	81.07%	-	-	194	1.19%	439	2.70%
<b>Total</b>	<b>173 750</b>	<b>72.44%</b>	<b>2 652</b>	<b>1.11%</b>	<b>4 088</b>	<b>1.70%</b>	<b>8 736</b>	<b>3.64%</b>

**Table 12: Salaries, overtime, home owners allowance and medical assistance by salary band, 2015/16**

Salary band	Salaries		Overtime		Home owners allowance		Medical assistance	
	Amount (R'000)	Salaries as a % of personnel cost	Amount (R'000)	Overtime as a % of personnel cost	Amount (R'000)	HOA as a % of personnel cost	Amount (R'000)	Medical assistance as a % of personnel cost
Contractors	351	43.33%	-	-	-	-	-	-
Interns	486	97.39%	-	-	-	-	-	-
Skilled	25 808	73.34%	307	0.87%	1 048	2.98%	1 928	5.48%
Professionally qualified	96 190	68.41%	1 916	1.36%	2 510	1.79%	4 930	3.51%
Senior management	47 095	80.74%	429	0.74%	520	0.89%	1 822	3.12%
Top management	3 820	86.78%	-	-	10	0.23%	56	1.27%
<b>Total</b>	<b>173 750</b>	<b>72.44%</b>	<b>2 652</b>	<b>1.11%</b>	<b>4 088</b>	<b>1.70%</b>	<b>8 736</b>	<b>3.64%</b>



## Employment and vacancies

Table 13: Employment and vacancies by salary band, 2015/16

Salary band	Number of posts	Number of posts filled	Vacancy rate	Number of posts filled, additional to the establishment
Top management (P2–3)	4	3	25%	-
Senior management and high level specialists (P4–6)	66	55	16.6%	-
Middle management superintendents and lower level specialists (P7–9)	163	159	2.4%	-
Supervisors and high level skilled/ clerical (P10–12)	79	74	6.3%	-
Lower level skilled/clerical (P13–16)	10	9	10%	9
<b>Total</b>	<b>322</b>	<b>300</b>	<b>6.8%</b>	<b>9</b>

## Job evaluation

Table 14: Profile of employees whose salary positions were upgraded due to their posts being upgraded, 2015/16

Beneficiaries	African	Asian	Coloured	White	Total
Female	35	8	3	12	58
Male	20	5	1	2	28
<b>Total</b>	<b>55</b>	<b>13</b>	<b>4</b>	<b>14</b>	<b>86</b>
Employees with a disability					1



**Table 15: Employees whose salary level exceed the grade determined by job evaluation, 2015/16**

Occupation	Number of employees	Job evaluation level	Remuneration level	Reason for deviation
Admin Officer /Coordinator	23	P11	P10	Wage agreement 2015/16, towards completing a Career Development Path for Support Staff
Call Centre Operator	4	P11	P10	
Credit Controller: Accounts Receivables	2	P10	P09	
Creditors Officer	3	P11	P10	
Evaluator	3	P10	P9	
Financial Officer (Levies): Accounts Receivables	2	P11	P10	
Financial Officer: Accounts Receivables	6	P11	P10	
Health & Safety Officer	1	P8	P7	
HR Officer	4	P9	P8	
HRD Officer	1	P9	P8	
Internal Auditor	3	P8	P7	
IT Business Applications Officer	1	P9	P8	
IT Network Specialist	1	P7	P6	CCMA
IT Security Specialist	1	P7	P6	CCMA
IT Support Officer	2	P9	P8	Wage agreement 2015/16, towards completing a Career Development Path for Support Staff
Lab Assistant	7	P13	P12	
Lab Assistant/ Truck Driver	1	P13	P12	
Legal Admin Officer	1	P11	P10	CCMA
Legal Advisor	1	P7	P6	
Levy Auditor	2	P9	P8	Wage agreement 2015/16, towards completing a Career Development Path for Support Staff
Manager: Accounts Receivables	1	P8	P7	
Manager: Fixed Assets & Recon	1	P8	P7	CCMA
Media & PR Specialist	1	P8	P6	
Messenger & Admin Officer	1	P13	P12	Wage agreement 2015/16 towards completing a career development path for support staff
Purchasing/Procurement Officer	3	P10	P9	
QMS Officer	1	P8	P7	
Receipting Officer: Accounts Receivables	1	P11	P10	
Receptionist	3	P12	P11	
Sampler	4	P12	P11	
<b>Total Number of Employees whose salaries exceeded the level determined by job evaluation in 2015/16</b>				<b>85</b>
<b>Percentage of total employment</b>				<b>27%</b>

**Table 16: Profile of employees whose salary level exceed the grade determined by job evaluation, 2015/16**

Beneficiaries	African	Asian	Coloured	White	Total
Female	35	8	3	12	58
Male	20	5	1	2	28
<b>Total</b>	<b>55</b>	<b>13</b>	<b>4</b>	<b>14</b>	<b>86</b>
Employees with a disability					1

## Employment changes

**Table 17: Annual turnover rates by salary band, 2015/16**

Salary band	Number of employees per band as on 31 March 2016	Appointments and transfers into the NRCS	Terminations and transfers out of the NRCS	Turnover rate
Top management (P2-3)	3	1	-	33%
Senior management and high level specialists (P4-6)	55	3	6	10.9%
Middle management, superintendents and lower level specialists (P7-9)	159	3	3	1.8%
Supervisors and high level skilled/ clerical (P10-12)	74	3	2	2.7%
Lower level skilled/clerical (P13-16)	9	-	-	0%
<b>Total</b>	<b>300</b>	<b>10</b>	<b>11</b>	<b>3.6%</b>

### Annual turnover rates by critical occupation, 2015/16

There are no positions categorised as critical occupation within the NRCS.

**Table 18: Reasons why staff are leaving the NRCS**

Termination type	Number	% of total
Death	2	0.6%
Resignation	2	0.6%
Expiry of contract	-	-
Dismissal – operational changes	-	-
Dismissal – misconduct	-	-
Dismissal – inefficiency	-	-
Discharged due to ill health	-	-
Retirement	7	2.3%
Transfers to other public service departments	-	-
Other	-	-
<b>Total</b>	<b>11</b>	<b>3.6% (300)</b>
<b>Total number of employees who left as a % of the total employment</b>		<b>3.4% (322)</b>

Table 19: Promotions by salary band

Salary band	Employees 1 April 2015	Promotions to another salary level	Salary bands promotions as a % of employees by salary level	Progressions to another notch within a salary level	Notch progressions as a % of employees by salary band
Top management (P2–3)	3	-	-	-	-
Senior management and high level specialists (P4–6)	55	1	1.8%	-	-
Middle management, superintendents and lower level specialists (P7–9)	159	-	-	-	-
Supervisors and high level skilled/ clerical (P10–12)	74	4	5.4%	-	-
Lower level skilled/clerical (P13–16)	9	-	-	-	-
<b>Total</b>	<b>300</b>	<b>5</b>	<b>1.6%</b>	<b>-</b>	<b>-</b>

## Employment equity

Table 20: Total number of employees (including employees with disabilities) in each of the following occupational categories, as on 31 March 2016

Occupational categories	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	1	-	1	-	1	-	-	-	3
Professionals	23	3	-	13	13	1	1	3	57
Technicians and associate professionals	65	19	8	20	37	5	2	3	159
Clerks	10	3	-	-	40	7	2	11	73
Service and sales workers	5	2	-	-	1	-	-	-	-
Skilled agriculture and fishery workers	5	-	-	-	4	-	-	-	9
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>109</b>	<b>27</b>	<b>9</b>	<b>33</b>	<b>95</b>	<b>13</b>	<b>6</b>	<b>17</b>	<b>309</b>
Employees with disabilities								1	1

**Table 21: Terminations, 2015/16 (inclusive of interns)**

Occupational bands	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	-	-	-	-	-	-	-	-	-
Senior management	-	-	-	6	-	-	-	-	6
Professionally qualified and experienced specialists and mid-management	1	1	-	1	-	-	-	-	3
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	-	-	-	-	1	-	-	-	1
Semi-skilled and discretionary decision-making	1	-	-	-	-	-	-	-	1
Unskilled and defined decision-making	3	-	-	-	-	-	-	-	3
<b>Total</b>	<b>5</b>	<b>1</b>	<b>-</b>	<b>7</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14</b>
Employees with disabilities	-	-	-	-	-	-	-	-	-

**Table 22: Disciplinary action, 2015/16**

	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Disciplinary action	2	-	-	-	-	-	-	-	2

**Table 23: Skills development, 2015/16**

Occupational categories	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	1	-	1	-	-	-	-	-	2
Professionals	16	3	-	5	3	1	1	3	32
Technicians and associate professionals	31	13	8	4	17	5	2	2	82
Clerks	8	2	-	-	14	3	2	7	36
Service and sales workers	3	2	-	-	1	-	-	-	6
Skilled agriculture and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>59</b>	<b>20</b>	<b>9</b>	<b>9</b>	<b>35</b>	<b>9</b>	<b>5</b>	<b>12</b>	<b>158</b>
Employees with disabilities	1		1						2

## Performance rewards

No performance bonus was paid by the NRCS during the period under review.

## Leave utilisation for the period

Table 24: Sick leave, 2015/16

Salary band	Total days	% days with medical certification	Number of employees using sick leave	% of total employees using sick leave
Lower skilled (Levels 1–2)	17		3	1%
Skilled (Levels 3–5)	-		-	-
Highly skilled production (Levels 6–8)	115		25	8.3%
Highly skilled supervision (Levels 9–12)	263		73	24%
Senior management (Levels 13–16)	115		36	12%
<b>Total</b>	<b>510</b>		<b>134</b>	<b>44%</b>

Table 25: Annual leave, 2015/16

Salary bands	Total days taken	Average per employee
Lower skilled (Levels 1–2)	52	7.43
Skilled (Levels 3–5)	-	-
Highly skilled production (Levels 6–8)	401	5.73
Highly skilled supervision (Levels 9–12)	569	5.03
Senior management (Levels 13–16)	207	4.22
<b>Total</b>	<b>1 246</b>	<b>5.21</b>

Table 26: Capped leave, 2015/16

Salary bands	Total days of capped leave taken	Average number of days taken per employee
Lower skilled (Levels 1–3)	44.52	5.56
Skilled Levels	-	-
Highly skilled production (Levels 10–12)	413.17	5.66
Highly skilled supervision (Levels 7–9)	2 032.45	12.78
Senior management (Levels 4–6)	739.60	13.21
Top Management (2–3)	31.42	10.47
<b>Total</b>	<b>3 261.16</b>	<b>10.90</b>

Table 27: Leave payouts, 2015/16

Reason	Total amount (R'000)	Number of employees	Average payment per employee
Leave payouts due to non-utilisation of leave for the previous cycle	-	-	-
Capped and current leave payouts on termination of service	912 487.24	6	152 081.21
<b>Total</b>	<b>912 487.24</b>	<b>6</b>	<b>152 081.21</b>

## HIV/AIDS and health promotion programmes

**Table 28: Details of health promotion and HIV/AIDS programmes**

Question	Yes	No	Details, if yes
1. Has the entity designated a member of the SMS to implement the provisions contained in Part VI E of Chapter 1 of the Public Service Regulations, 2001? If so, provide her/his name and position.	Y		H de Beer OHS and Wellness Officer
2. Does the NRCS have a dedicated unit or has it designated specific staff members to promote the health and wellbeing of its employees? If so, indicate the number of employees who are involved in this task and the annual budget that is available for this purpose.	Y		14 employees. Budget: R70 000
3. Has the NRCS introduced an Employee Assistance or Health Promotion Programme for employees? If so, indicate the key elements/services of this programme.	Y		Counselling and promotion of all areas
4. Has the NRCS established (a) committee(s) as contemplated in Part VI E.5 (e) of Chapter 1 of the Public Service Regulations, 2001? If so, please provide the names of the members of the committee and the stakeholder(s) that they represent.		N	
5. Has the NRCS reviewed its employment policies and practices to ensure that these do not unfairly discriminate against employees on the basis of their HIV status? If so, list the employment policies/practices so reviewed.		N	All HR-related policies are under review
6. Has the NRCS introduced measures to protect HIV-positive employees or those perceived to be HIV-positive from discrimination? If so, list the key elements of these measures.		N	
7. Does the NRCS encourage its employees to undergo voluntary counselling and testing? If so, list the results that you have achieved.	Y		67 tested
8. Has the NRCS developed measures/indicators to monitor and evaluate the impact of its health promotion programme? If so, list these measures/indicators.		N	

## Labour relations

The following collective agreements were entered into with trade unions.

**Table 29: Collective agreements, 2015/16**

Subject Matter	Date
Wage settlement for Bargaining Unit	August 2015

**Table 30: Misconduct and disciplinary hearings finalised, 2015/16**

Outcomes of disciplinary hearings	Number	% of total
Correctional counselling	1	100%
<b>Total</b>	<b>1</b>	<b>100%</b>

**Table 31: Types of misconduct addressed at disciplinary hearings**

Type of misconduct	Number	% of total
Fraud and absenteeism	1	50%
Unacceptable behaviour	1	50%
<b>Total</b>	<b>2</b>	<b>100%</b>

**Table 32: Grievances lodged, 2015/16**

	Number	% of total
Number of grievances resolved	2	40%
Number of grievances not resolved	3	60%
<b>Total number of grievances lodged</b>	<b>5</b>	<b>100%</b>

**Table 33: Disputes lodged with councils, 2015/16**

	Number	% of total
Number of disputes upheld	7	87.50%
Number of disputes dismissed	1	12.50%
<b>Total number of disputes lodged</b>	<b>8</b>	<b>100%</b>

**Table 34: Strike actions, 2015/16**

Total number of person working days lost	None
Total cost (R'000) of working days lost	None
Amount (R'000) recovered as a result of no work no pay	None

**Table 35: Precautionary suspensions, 2015/16**

Number of people suspended	None
Number of people whose suspension exceeded 30 days	0
Average number of days suspended	0
Cost (R'000) of suspensions	0

**Table 36: Training needs identified, 2015/16**

Occupational categories	Gender	Number of employees as at 1 April 2015	Training needs identified at start of reporting period	
			Skills programmes and other short courses	Total
Top management	Female	1	1	1
	Male	2	2	2
Senior management	Female	17	17	17
	Male	39	39	39
Professionally qualified and experienced specialists and mid-management	Female	47	47	47
	Male	112	112	112
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	Female	60	60	60
	Male	13	13	13
Semi-skilled and discretionary decision-making	Female	1	1	1
	Male	8	8	8
Unskilled and defined decision-making	Female	-	-	-
	Male	-	-	-
<b>Total</b>		<b>300</b>	<b>300</b>	<b>300</b>



Table 37: Training provided, 2015/16

Occupational categories	Gender	Number of employees as at 1 April 2015	Training provided within the reporting period			
			Learnerships	Skills programmes and other short courses	Other forms of training	Total
Top management	Female	0		0		0
	Male	2		2		2
Senior management	Female	8		8		8
	Male	24		24		24
Professionally qualified and experienced specialists and mid-management	Female	26		26		26
	Male	56		56		56
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	Female	26		26		26
	Male	10		10		10
Semi-skilled and discretionary decision-making	Female	1		1		1
	Male	5		5		5
Unskilled and defined decision-making	Female	0	0	0	0	0
	Male	0	0	0	0	0
Subtotal	Female	61		61		61
	Male	97		97		97
<b>Total</b>		<b>158</b>	<b>0</b>	<b>158</b>		<b>158</b>

## Injury on duty

The following table provide basic information on injury on duty.

Table 38: Injury on duty, 2015/16

Nature of injury on duty	Number	% of total
Required basic medical attention only	10	0.3%
Temporary total disablement	1	
Permanent disablement	0	
Fatal	0	
<b>Total</b>	<b>11</b>	<b>0.03%</b>

## Utilisation of consultants

- Report on consultant appointments using appropriated funds: The NRCS did not receive appropriated funds for the financial year under review.
- Report on consultant appointments using donor funds: The NRCS did not receive donor funding during the reporting period.
- Analysis of consultant appointments using donor funds, in terms of historically disadvantaged individuals: The NRCS did not receive donor funding during the financial year.



## Part E: Financial information

# Report of the Auditor-General

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the National Regulator for Compulsory Specifications set out on pages 78 to 128, which comprise statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting Authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the

assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Non-exchange revenue and non-exchange receivables from levies for compulsory specifications

6. I was unable to obtain sufficient appropriate audit evidence that management had adequately accounted for all non-exchange levies for compulsory specifications for the current and prior year, due to deficiencies in the internal control environment and its inability to account for revenue in the correct accounting period. I was unable to confirm the non-exchange revenue from levies for compulsory specifications by alternative means.

7. Consequently, I was unable to determine whether any adjustment relating to non-exchange revenue from levies for compulsory specifications at R154 590 878 (2014-15: R166 436 828) and Trade and other receivables from non exchange transactions amounting to R13 040 063 (2014-15: R14 669 407) in the financial statements, was necessary.

### Qualified opinion

8. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the NRCS as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

### Report on other legal and regulatory requirements

9. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected goals presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected goals presented in the annual performance report of the public entity for the year ended 31 March 2016:
- Strategic goal 1: To develop, maintain and administer compulsory specifications and technical regulations on pages 15.
  - Strategic goal 2: To maximise compliance with all specifications and technical regulations on pages 16 to 20.
11. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned strategic goals. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound

and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.

12. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
13. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Goal 1: To develop, maintain and administer compulsory specifications and technical regulations; and
- Goal 2: To maximise compliance with all specifications and technical regulations.

### Additional matter

14. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected strategic goals, I draw attention to the following matter:

### *Achievement of planned targets*

15. Refer to the annual performance report on pages 15 to 22 for information on the achievement of the planned targets for the year.

### Compliance with legislation

16. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Annual Financial Statements

17. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure Management**

18. Effective steps were not taken to prevent irregular expenditure, amounting to R202 293 as disclosed in note 28 of the annual financial statements, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

### **Revenue Management**

19. Effective and appropriate steps were taken to collect all money due to the entity, as required by section 51(1)(b)(i) of the Public Finance Management Act and Treasury Regulations 31.1.2(a) and (e).

### **Internal control**

20. I considered internal control relevant to my audit of the financial statements, the performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, and the findings on compliance with legislation included in this report.

### **Leadership**

21. Leadership did not exercise adequate oversight in certain instances regarding financial reporting processes to ensure accurate and complete financial reports.

### **Financial and performance management**

22. Management did not always implement effective controls in certain instances over daily and monthly processing and reconciling transactions to allow accurate and complete financial reporting.
23. Management did not in certain instances adequately monitor and review compliance with laws and regulations.

*Kudhor-General*

Pretoria

31 July 2016



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

# Statement of Financial Position

as at 31 March 2016

	Notes	2016 R	2015 R
<b>Assets</b>			
<b>Current assets</b>		<b>221 178 015</b>	<b>230 312 510</b>
Cash and cash equivalents	2	199 846 747	206 669 158
Trade and other receivables from exchange transactions	3	8 291 205	8 973 945
Trade and other receivables from non-exchange transactions	4	13 040 063	14 669 407
<b>Non-current assets</b>		<b>29 697 498</b>	<b>18 118 658</b>
Deposits	5	328 266	328 266
Intangible assets	6	2 850 009	3 685 962
Property, plant and equipment	7	26 519 223	7 767 044
Investment property	8	-	6 337 386
<b>Total assets</b>		<b>250 875 513</b>	<b>248 431 168</b>
<b>Liabilities</b>			
<b>Current liabilities</b>		<b>38 189 638</b>	<b>43 956 045</b>
Trade and other payables from exchange transactions	9	18 783 003	20 238 597
Interest bearing borrowings	10	733 991	-
Employee benefit obligations	12	2 979 084	1 557 795
Provisions	11	15 693 560	22 159 653
<b>Non-current liabilities</b>		<b>28 823 514</b>	<b>22 228 831</b>
Interest bearing borrowings	10	1 759 052	-
Employee benefit obligations	12	27 064 462	22 228 831
<b>Total liabilities</b>		<b>67 013 152</b>	<b>66 184 876</b>
<b>Net assets</b>		<b>183 862 361</b>	<b>182 246 292</b>
Represented by:			
<b>Accumulated surpluses</b>		<b>183 862 361</b>	<b>182 246 292</b>
<b>Amount approved by National Treasury for retention</b>		<b>182 246 292</b>	<b>128 592 703</b>
<b>Amount still subject to National Treasury approval to retain</b>		<b>1 616 069</b>	<b>53 653 589</b>

# Statement of Financial Performance

for the year ended 31 March 2016

	Notes	2016 R	2015 R
<b>Revenue</b>		<b>293 344 909</b>	<b>319 119 419</b>
<b>Non-exchange revenue</b>		<b>248 121 853</b>	<b>277 789 580</b>
Levies for compulsory specifications		154 590 878	166 436 828
Transport annual registration fee		1 798 975	1 618 752
Government grants and core funding	25.4	91 732 000	109 734 000
<b>Exchange revenue</b>			
Revenue from services rendered	13	<b>45 223 056</b>	<b>41 329 839</b>
<b>Sundry income</b>	14	<b>2 188 204</b>	<b>783 371</b>
		<b>295 533 113</b>	<b>319 902 790</b>
<b>Expenses</b>		<b>308 310 807</b>	<b>278 511 519</b>
Advertising and marketing expenses		5 023 486	2 310 276
Amortisation of intangible assets	6	835 953	520 697
Contract services	15	8 608 946	6 983 776
Depreciation	7 and 8	2 446 636	2 172 071
Employment cost	16	239 842 830	217 186 399
Office rentals and other operating lease expenses	17	12 351 607	12 260 913
Tests and sampling		4 897 834	4 356 623
Travel expenditure		13 642 770	10 683 074
Other expenditure	18	20 660 745	22 037 690
<b>Operating (deficit)/surplus for the year</b>		<b>(12 777 694)</b>	<b>41 391 271</b>
Interest received	19	14 393 763	11 022 920
Finance cost	20	-	(2 069)
<b>Surplus for the year</b>		<b>1 616 069</b>	<b>52 412 122</b>



# Statement of Changes in Net Assets

for the year ended 31 March 2016

	Accumulated surpluses R
<b>Opening balance at 1 April 2014</b>	<b>129 834 170</b>
Surplus for the year	52 412 122
<b>Accumulated surplus at 31 March 2015</b>	<b>182 246 292</b>
Surplus for the year	1 616 069
<b>Accumulated surplus at 31 March 2016</b>	<b>183 862 361</b>

# Cash Flow Statement

for the year ended 31 March 2016

	Notes	2016 R	2015 R
<b>Cash flows from operating activities</b>		<b>5 580 405</b>	<b>57 042 284</b>
<b>Cash received from customers and government</b>		<b>294 956 393</b>	<b>306 129 159</b>
Cash received from services rendered		44 105 849	34 721 960
Cash received from non-exchange transactions		157 256 880	160 868 314
Cash received from government		91 732 000	109 734 000
Other cash received		1 861 664	804 885
<b>Cash paid to suppliers and employees</b>		<b>(303 769 751)</b>	<b>(260 107 726)</b>
Cash paid to suppliers		(63 717 748)	(56 203 823)
Cash paid to employees		(240 052 003)	(203 903 903)
<b>Cash (invested in)/generated from operations</b>	21	<b>(8 813 358)</b>	<b>46 021 433</b>
Interest received		14 393 763	11 022 920
Finance cost		-	(2 069)
<b>Cash flows from investing activities</b>		<b>(12 402 816)</b>	<b>(1 273 388)</b>
Purchase of property, plant and equipment		(12 402 816)	(1 106 663)
Purchase of intangible assets		-	(166 725)
<b>Cash flows from financing activities</b>		<b>-</b>	<b>(42 305)</b>
Repayment of interest bearing borrowings		-	(42 305)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6 822 411)</b>	<b>55 726 591</b>
Cash and cash equivalents at beginning of the period		206 669 158	150 942 567
<b>Cash and cash equivalents at the end of the period</b>		<b>199 846 747</b>	<b>206 669 158</b>

# Statement of Comparison of Budget and Actual Amounts

for the year ended at 31 March 2016

Statement of Financial Performance	Notes	Approved budget R	Actual amount R	Difference to budget R
<b>Revenue</b>		<b>254 753 904</b>	<b>203 801 113</b>	<b>(50 952 791)</b>
<b>Non-exchange revenue</b>				
Levies for compulsory specifications	A	163 941 159	154 590 878	(9 350 281)
Transport annual registration fee	B	1 739 436	1 798 975	59 539
<b>Exchange revenue</b>				
Revenue from services rendered	C	37 973 069	45 223 056	7 249 987
Sundry income	D	51 100 240	2 188 204	(48 912 036)
<b>Expenditure</b>		<b>356 388 120</b>	<b>308 310 807</b>	<b>48 077 313</b>
Advertising and marketing expenditure	E	5 341 142	5 023 486	317 656
Amortisation of intangible assets	F	1 600 000	835 953	764 047
Contract services	G	14 012 129	8 608 946	5 403 183
Depreciation	F	2 425 000	2 446 636	(21 636)
Employment cost	H	257 346 485	239 842 830	17 503 655
Office rentals and other operating lease expenses	I	14 605 995	12 351 607	2 254 388
Tests and sampling	J	9 696 398	4 897 834	4 798 564
Travel expenditure	K	18 920 875	13 642 770	5 278 105
Other expenditure	L	32 440 096	20 660 745	11 779 351
<b>Operating loss for the year</b>		<b>(101 634 216)</b>	<b>(104 509 694)</b>	<b>(2 875 478)</b>
Government grants and core funding		91 731 996	91 732 000	4
<b>Operating loss for the year</b>		<b>(9 902 220)</b>	<b>(12 777 694)</b>	<b>(2 875 474)</b>
Interest received	M	10 000 000	14 393 763	4 393 763
Finance cost	N	(15 000)	-	15 000
<b>Surplus for the year</b>		<b>82 780</b>	<b>1 616 069</b>	<b>1 533 289</b>

## Budget compared to the Statement of Financial Performance

The budget was prepared for the 12 months ended 31 March 2016 on the accrual basis. No adjustment budget was submitted to National Treasury.

### Material variances disclosed

A	Levies for compulsory specifications	Levies are below budget due to current subdued trading conditions combined with timelines associated with issuing Letters of Authority (LoAs).
B	Transport annual registration fee	The annual registration fees are slightly higher than budget due to a slight upturn in the Automotive sector.
C	Revenue from services rendered	The overperformance to budget is mainly due to an influx of LoA applications, especially in the electro-technical sector.
D	Other income	The reduction in core funding resulted in NRCS having to supplement its budgeted expenditure from its cash reserves. As expenditure levels were managed during the year it resulted in less cash reserves being utilised.
E	Advertising and marketing expenditure	Advertising and marketing is slightly lower than budget due to the timing of projects.
F	Depreciation and amortisation	Amortisation is lower due to expected investment in intangible assets that had not happened during the period under review.
G	Contract services	The underspending with regards to contract services is due to changes in Service Level Agreements from fixed fees to time and materials based contracts.
H	Employee benefit expenditure	The underspending is due to the reversal of the anticipated performance bonus which was raised during the previous financial year combined with staffing requirements that did not materialise.
I	Office rentals and other operating leases	The actual rental amounts are lower than budget due to the effect of straight-lining of leases that is not fully budgeted for.
J	Tests and sampling	The underspending with regards to testing is mainly due to lower than expected samples submitted for testing.
K	Travel expenditure	The underspending on travel was mainly due to implementation of the risk-based approach and implementation of the National Treasury cost containment measures, where more cost-effective mechanisms were utilised.
L	Other expenditure	The under-expenditure in this area was mainly due to implementation of the National Treasury's cost containment measures, where more cost-effective mechanisms were utilised. Areas of under expenditure against the budget include underspending on legal fees and software costs which did not meet budget expectations.
M	Interest received	Higher than anticipated interest revenue was due to the increased investment.
N	Finance cost	No finance cost was incurred during the year as the NRCS only signed its new leases at the end of the reporting period.

### Reconciliation between budget and Statement of Financial Performance

	Notes	2016 R
<b>Net surplus per the Statement of Financial Performance</b>		<b>1 616 069</b>
Adjusted for:		
Deficit on the scrapping of assets		33 330
Loss on property, plant and equipment due to theft		1 100
Increases in provisions		2 330 704
Irrecoverable debt written off		22 387
Revenue under recovered and surpluses not released to revenue		46 559 028
Under-expenditure		(50 479 838)
<b>Net surplus per approved budget</b>		<b>82 780</b>

# Notes to the Annual Financial Statements

for the year ended at 31 March 2016

## 1. Significant accounting policies

### 1.1 Basis of preparation

The Annual Financial Statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 55 of the Public Finance Management Act, 1999 (Act No. 29 of 1999). The Annual Financial Statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board. Assets, liabilities, revenues and expenses have not been offset except where offsetting is required or permitted by a Standard of GRAP. These accounting policies are consistent with the previous year, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy. The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

#### *Changes in accounting policy, changes in accounting estimates and prior period errors*

Changes in accounting policy resulting from the initial application of a Standard are accounted for in accordance with the specific transitional provisions, if any, in that Standard; alternately the change is applied retrospectively unless impracticable.

The effect of a change in an accounting estimate is recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it is recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change.

Material prior period errors are retrospectively corrected in the first set of Financial Statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented unless impracticable.

#### *Presentation currency*

The Financial Statements are prepared in South African Rand, which is the functional currency of its primary place of residence.

#### *Rounding*

The Financial Statements are rounded to the nearest Rand.

#### *Accrual basis*

In order to meet its objectives, the Financial Statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the Financial Statements of the periods to which they relate. The budget is also prepared on the accrual basis.

#### *Going concern*

The Financial Statements are prepared on the assumption that the entity is a going concern and will continue in operation for the foreseeable future.

### *Significant judgments and key sources of estimation uncertainty*

The preparation of Annual Financial Statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgments include:

#### *Asset impairments*

The entity evaluates its non-current assets for impairment annually whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Judgments regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause management to conclude that impairment indicators exist.

If the entity determines that impairment indicators exist, the recoverable amount is determined. The recoverable amount is the higher of value-in-use or fair value less cost to sell. The determination is either based on an external valuation or internally determined by discounting the expected future economic benefits from the use of the asset at an appropriate discount rate.

#### *Depreciation and amortisation*

The entity is required to measure the residual value of an item of property, plant and equipment. An estimation is made of the amount it would receive currently for the asset if the asset was already of the age and condition expected at the end of its useful life.

Residual values (if material) are first estimated at the date of acquisition or transfer and are thereafter reviewed at each reporting date. If these change from the prior period, the depreciation charge is adjusted prospectively.

The useful life of an asset is the period over which the entity expects to use the asset, and not necessarily the asset's economic life. Useful lives of assets are reviewed annually. If these change from the prior period, the depreciation charge is adjusted prospectively.

The entity uses the following indicators to determine useful lives:

- Expected usage of assets;
- Expected physical wear and tear;
- Technical or commercial obsolescence; and
- Changes in the service potential of assets.

#### *Provisions and long-term employee benefits*

Provisions are required to be recorded when the entity has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

Best estimates, being the amount that the entity would rationally pay to settle the obligation, are recognised as provisions at reporting date. Risks, uncertainties and future events are taken into account by management in determining the best estimates. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which require management judgment. All provisions are reviewed at each reporting date.

Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that result in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down.

The entity is required to record provisions for legal contingencies when the occurrence of the contingency is probable and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgments regarding projected outcomes and

ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

Long-term employee benefits are determined by independent actuaries based on assumptions listed in note 12.

#### *Impairment of trade receivables*

A debtor is regarded as impaired if there is objective evidence, as a result of one or more events that occurred after initial recognition, that it is impaired. The entity assesses at each reporting date whether there is objective evidence that the debtor should be impaired. An account that is in excess of 120 days which the entity has attempted to recover with no current activity is viewed as objective evidence for possible impairment.

## **1.2 Financial instruments**

#### *Initial recognition and measurement*

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### *Subsequent measurement*

##### *Receivables from exchange transactions and receivables from non-exchange transactions*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate

allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

#### *Payables from exchange transactions*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### *Borrowings*

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### *Offset*

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legal enforceable right to offset the recognised amounts and the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.



### *Effective interest rate*

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### *Determination of fair value*

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis.

If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

### *Derecognition*

Financial assets or parts thereof are derecognised when the contractual rights to receive the cash flows have been transferred or have expired or if substantially all the risks and rewards of ownership have passed. Where substantially all the risks and rewards of ownership have

not been transferred or retained, the financial assets are derecognised if they are no longer controlled. However, if control in this situation is retained, the financial assets are recognised only to the extent of the continuing involvement in those assets. On derecognition of a financial asset, the difference between:

- (a) the carrying amount (or the carrying amount allocated to the part derecognised); and
- (b) the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in net assets is recognised in surplus or deficit.

Financial liabilities or parts thereof are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit.

### *Impairment of financial assets*

Financial assets, other than those financial assets classified as fair value through surplus and deficit, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. An impairment allowance is raised when there is an indication of impairment and a write-off is only effected when the debtor is deemed to be fully impaired and not recoverable.

A previously recognised impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in surplus or deficit.

### 1.3 Intangible assets

#### *Initial recognition and measurement*

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

For an intangible asset acquired at no or nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

#### *Subsequent measurement*

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets, amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite, is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Asset category	Average useful life
Computer software, internally generated	3–5 years
Computer software, acquired	3–5 years
Computer software, work-in-progress	Not depreciated

#### *Derecognition*

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### *Impairment*

If objective evidence exists that an intangible asset (or cash-generating unit) is impaired, the intangible asset (or cash-generating unit) is impaired to its recoverable amount. If there is objective evidence that the intangible asset (or cash-generating unit) is no longer impaired, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount if the intangible asset (or cash-generating unit) had never been impaired.

## **1.4 Property, plant and equipment**

### *Initial recognition and measurement*

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment includes the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### *Subsequent measurement*

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

<b>Asset category</b>	<b>Average useful life</b>
Vehicles	
• Trucks and vehicles	5–8 years
• Trailers	10 years
Office equipment	
• Office furniture	10 years
• Office equipment	5–7 years
IT equipment	5–10 years
Leasehold improvements	Term of the lease: 5–10 years
Laboratory equipment	10–13 years
Capital work-in-progress	Not depreciated

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate, unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and with different useful lives is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

#### *Derecognition*

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### *Impairment*

If objective evidence exists that an item of property, plant and equipment (or cash-generating unit) is impaired, the item of property, plant and equipment (or cash-generating unit) is impaired to its recoverable amount or recoverable service amount. If there is objective evidence that the item of property, plant and equipment (or cash-generating unit) is no longer impaired, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount if the item of property, plant and equipment (or cash-generating unit) had never been impaired.

## 1.5 Investment property

### *Initial recognition and measurement*

Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services;
- administrative purposes; or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services, or for administrative purposes.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### *Subsequent measurement*

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Asset category	Average useful life
Property – land	Not depreciated
Property – buildings	30 years

### *Derecognition*

Investment property is derecognised when the asset is disposed of or when there are no further economic benefits expected from the use of the asset.

The gain or loss arising from the derecognition of the investment property is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### *Impairment*

If objective evidence exists that the investment property is impaired, the investment property is impaired to its recoverable amount. If there is objective evidence that the investment property is no longer impaired, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount if the investment property had never been impaired.

## **1.6 Impairment of non-financial assets**

### *Recognition*

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset).

### *Measurement*

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable

service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash-generating assets or non-cash-generating assets.

For cash-generating assets the value-in-use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash-generating asset the value in use is determined through one of the following approaches:

- **Depreciated replacement cost approach –** The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- **Restoration cost approach –** Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- **Service units approach –** the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their

present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the entity makes an estimate of the assets or cash-generating unit's recoverable amount.

#### *Reversal of impairment losses*

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the Statement of Financial Performance.

### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The following are indicators that a lease should be classified as a finance lease:

- the lease transfers ownership of the asset to the entity by the end of the lease term;
- the entity has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications; and
- the leased assets cannot easily be replaced by another asset.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### *Finance leases – lessee*

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### *Operating leases – lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.

## 1.8 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within 12 months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

### *Short-term employee benefits*

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related services;
- bonus-, incentive- and performance-related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example medical care and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus-, incentive- and performance-related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

### *Post-employment benefits*

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

### *Post-employment benefits: Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions



if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the pre-payment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.

#### *Post-employment benefits: Defined benefit plans*

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability, the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability, the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

The entity accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and,

where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the entity attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the entity attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

#### *Actuarial assumptions*

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### *Other post-retirement obligations*

The entity provides post-retirement healthcare benefits upon retirement to some retirees.

The entitlement to post-retirement healthcare benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Independent qualified actuaries carry out valuations of these obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses, which are all recognised immediately;
- past service cost, which are all recognised immediately; and
- the effect of any curtailments or settlements.

### 1.9 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26 of the Annual Financial Statements.

### 1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

#### *Measurement*

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### *Rendering of services*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Interest*

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.11 Revenue from non-exchange transactions

#### *Recognition*

Revenue arising from non-exchange transactions is only recognised if:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the amount of the revenue can be measured reliably.

#### *Measurement*

Revenue is the net of the asset recognised at cost or fair value less the fair value of any liability resulting from the non-exchange transaction.

#### *Levies*

Levies for compulsory specifications are based on declarations of volumes of regulated products manufactured or imported.

Levies for compulsory specifications are recognised only when a levy payer filed a levy declaration as this is when the initial recognition criteria is met.

The recognition of the levy debtor is initially measured at the transaction amount which is determined by reference to published tariff per unit on regulated products, multiplied by the number of units declared.

If it is deemed reliable, levy debtors may be estimated with reference to historical levy declarations, to the maximum number of units over a period of five years.

The NRCS does not have an obligation that arises in respect of levies for compulsory specifications and therefore the levy revenue is recognised at the amount of the levy debtor, or if earlier, the cash received with levy declaration.

Levy revenue is then only recognised once it becomes due and payable.

#### *Government grants*

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

### **1.12 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.13 Translation of foreign currencies**

#### *Foreign currency transactions*

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous Financial Statements, are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### **1.14 Segment reporting**

The entity reports based on service segments, which is a distinguishable component of the entity that is engaged in providing related outputs or achieving particular operating objectives.

For each of the reportable segments identified, details of the financial performance is disclosed.

### **1.15 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the reporting period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.16 Irregular expenditure

Irregular expenditure as defined in Section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

- (a) the PFMA; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968) or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Budget information

The Financial Statements and the budget are prepared on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the Statement of Comparison of Budget and Actual Amounts.

### 1.18 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or *vice versa*, or an entity that is subject to common control or joint control.

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

The entity does not disclose related party transactions if the transaction occurs within a normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and on terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by management in their dealings with the entity.

### 1.19 Transfer of functions from an entity under common control

Assets and liabilities are initially recognised at fair value resulting in the accounting of net assets transferred, including contingent liabilities. The net assets are accounted for as a surplus in the Statement of Financial Performance. Where assets were transferred and no historical costs were available, the fair values were determined at the reporting date and recognised in the Annual Financial Statements.

### 1.20 Commitments

Commitments other than lease commitments represent goods and services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

### 1.21 Taxation

The NRCS has been exempted from income tax in terms of the provisions of Section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962).

## 1.22 Statements of GRAP issued, but changes not yet effective

Statement		Effective date
GRAP 20	Related party disclosure	None announced
GRAP 32	Service concession arrangements: Grantor	None announced
GRAP 108	Statutory receivables	None announced
GRAP 109	Accounting by Principals and Agents	None announced
IGRAP 17	Interpretation of the Standard of GRAP on service concession arrangements where a grantor controls a significant residual interest in an asset	None announced

The implementation of these statements and interpretations of GRAP are not expected to impact materially on the Financial Statements of the entity.

## 1.23 Statements of GRAP issued and effective

The following statements of GRAP became effective during the period under review:

Statement	
GRAP 18	Segment reporting
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

The adoption of these standards of GRAP has not had any material impact on the on the Financial Statements of the entity.



## 2. Cash and cash equivalents

	2016 R	2015 R
Cash and cash equivalents comprise of the following:		
Cash on hand	15 639	15 639
Bank balances	9 290 201	18 977 407
Reserve Bank – Corporation for Public Deposits	190 540 907	187 676 112
Cash and cash equivalents as per cash flow statement	<b>199 846 747</b>	<b>206 669 158</b>

The maximum exposure to credit risk, as a result of carrying cash and cash equivalents, is limited to the carrying value of the cash and cash equivalents.

None of the cash and cash equivalents are considered to be impaired and consequently no provision was raised for the irrecoverability of these financial assets. No restrictions have been placed on the use of cash and cash equivalents for the operations of the entity.

## 3. Trade and other receivables from exchange transactions

### 3.1 Trade and other receivables from exchange transactions

	Notes	2016 R	2015 R
Trade receivables		9 503 910	7 060 205
Less: Adjustment to fair value on initial recognition		(33 781)	(43 977)
Trade receivables at amortised cost		9 470 129	7 016 228
Less: Impairment of trade receivables	3.2	(3 537 728)	(1 760 168)
<b>Net trade receivables</b>		<b>5 932 401</b>	<b>5 256 060</b>
<b>Other receivables</b>		<b>2 358 804</b>	<b>3 717 885</b>
Employee advances		366 416	596 666
Prepaid expenses		1 992 388	3 121 219
		<b>8 291 205</b>	<b>8 973 945</b>

### 3.2 impairment of trade and other receivables from exchange transactions

	2016 R	2015 R
Opening balance	1 760 168	262 814
Amounts utilised – written off as irrecoverable	(2 486)	(116 471)
Increase in impairment provision	1 780 046	1 613 825
Closing balance	<b>3 537 728</b>	<b>1 760 168</b>

Trade receivables are impaired on an individual basis. The impairment of trade receivables has been determined with reference to past default experience and the current economic environment in which these entities trade. The following is considered as objective evidence that a trade receivable is impaired:

- All legal collections and avenues have been exhausted
- Customer in liquidation
- Judgment awarded in favour of the entity
- Uneconomical to initiate legal action or to continue legal pursuit.

The NRCS does not hold any collateral as security.

As at 31 March, the age analysis of trade receivables is as follows:

	Total R	Not past due or impaired	Past due but not impaired			
		Current R	> 30 days R	> 60 days R	> 90 days R	> 120 days R
<b>2016</b>	5 932 401	3 111 801	1 591 954	541 326	170 133	517 187
<b>%</b>	100%	52%	27%	9%	3%	9%
<b>2015</b>	5 256 060	3 275 788	1 339 175	288 978	242 462	109 657
<b>%</b>	100%	63%	25%	5%	5%	2%

## 4. Trade and other receivables from non-exchange transactions

### 4.1 Trade and other receivables from non-exchange transactions

	Notes	2016 R	2015 R
Trade receivables		16 918 781	17 819 034
Less: Adjustment to fair value on initial recognition		(20 863)	(54 089)
Trade receivables at amortised cost		16 897 918	17 764 945
Less: Impairment of trade receivables	4.2	(3 857 855)	(3 095 538)
Net trade receivables		<b>13 040 063</b>	<b>14 669 407</b>

## 4.2 Impairment of trade and other receivables from non-exchange transactions

	2016 R	2015 R
Opening balance	3 095 538	710 571
Amounts utilised – written off as irrecoverable	-	(314 904)
Increase in impairment provision	762 317	2 699 871
Closing balance	<b>3 857 855</b>	<b>3 095 538</b>

Trade receivables are impaired on an individual basis. The impairment of trade receivables has been determined with reference to past default experience and the current economic environment in which these entities trade. The following is considered as objective evidence that a trade receivable is impaired:

- All legal collections and avenues have been exhausted
- Customer in liquidation
- Judgment awarded in favour of the entity
- Uneconomical to initiate legal action or to continue legal pursuit.

The NRCS does not hold any collateral as security.

As at 31 March 2016, the age analysis of trade receivables is as follows:

	Total R	Not past due or impaired	Past due but not impaired			
		Current R	> 30 days R	> 60 days R	> 90 days R	> 120 days R
<b>2016</b>	13 040 063	8 345 539	686 321	3 618 959	130 160	259 084
<b>%</b>	100%	64%	5%	28%	1%	2%
<b>2015</b>	14 669 407	12 513 081	1 036 175	792 112	163 225	164 814
<b>%</b>	100%	85%	7%	6%	1%	1%

## 5. Deposits

	2016 R	2015 R
Operating leases	312 000	312 000
Fleet cards	10 000	10 000
Municipalities	6 266	6 266
	<b>328 266</b>	<b>328 266</b>

Deposits are for property held under an operating lease, fleet card services and for municipality services and are accounted for at cost.

## 6. Intangible assets

	Work-in-progress R	Computer software R	Total R
<b>2016</b>			
Opening carrying amount	-	3 685 962	3 685 962
Gross carrying amount	-	5 164 076	5 164 076
Accumulated amortisation	-	(1 478 114)	(1 478 114)
Additions	-	-	-
Amortisation	-	(835 953)	(835 953)
Disposals	-	-	-
<b>Closing carrying amount</b>	<b>-</b>	<b>2 850 009</b>	<b>2 850 009</b>
Gross carrying amount	-	4 179 766	4 179 766
Accumulated amortisation	-	(2 314 067)	(2 314 067)

	Work-in-progress R	Computer software R	Total R
<b>2015</b>			
Opening carrying amount	4 013 040	26 894	4 039 934
Gross carrying amount	4 013 040	984 311	4 997 351
Accumulated amortisation	-	(957 417)	(957 417)
Additions	166 725	-	166 725
Amortisation	-	(520 697)	(520 697)
Derecognised at carrying amounts	-	-	-
Transfers	(4 179 765)	4 179 765	-
<b>Closing carrying amount</b>	<b>-</b>	<b>3 685 962</b>	<b>3 685 962</b>
Gross carrying amount	-	5 164 076	5 164 076
Accumulated amortisation	-	(1 478 114)	(1 478 114)

## 7. Property, plant and equipment

	Work-in-progress R	Furniture and office equipment R	Laboratory equipment R	Land, buildings and operating lease improvements R	Vehicles R	Total R
<b>2016</b>						
Opening carrying amount	-	5 234 416	1 547 293	324 908	660 427	7 767 044
Gross carrying amount	-	12 145 116	4 063 595	766 291	1 067 371	18 042 373
Accumulated depreciation and impairment losses	-	(6 910 700)	(2 516 302)	(441 383)	(406 944)	(10 275 329)
Additions	6 077 971	3 598 678	16 234	-	5 202 976	14 895 859
Depreciation	-	(1 663 743)	(212 253)	(100 102)	(375 675)	(2 351 773)
Derecognised at carrying amounts	-	(22 428)	(12 002)	-	-	(34 430)
Transfers	-	-	-	6 242 523	-	6 242 523
<b>Closing carrying amount</b>	<b>6 077 971</b>	<b>7 146 923</b>	<b>1 339 272</b>	<b>6 467 329</b>	<b>5 487 728</b>	<b>26 519 223</b>
Gross carrying amount	6 077 971	15 525 488	4 046 178	8 766 291	6 270 348	40 686 276
Accumulated depreciation and impairment losses	-	(8 378 565)	(2 706 906)	(2 298 962)	(782 620)	(14 167 053)

	Work-in-progress R	Furniture and office equipment R	Laboratory equipment R	Operating lease improvements R	Vehicles R	Total R
<b>2015</b>						
Opening carrying amount	83 236	6 210 691	1 765 052	434 566	359 442	8 852 987
Gross carrying amount	83 236	12 060 315	4 000 743	914 390	662 970	17 721 654
Accumulated depreciation and impairment losses	-	(5 849 624)	(2 235 691)	(479 824)	(303 528)	(8 868 667)
Additions	-	673 193	28 969	-	404 501	1 106 663
Depreciation	-	(1 561 738)	(309 229)	(119 964)	(103 416)	(2 094 347)
Derecognised at carrying amounts	-	(55 805)	(20 735)	(21 619)	(100)	(98 259)
Transfers	(83 236)	(31 925)	83 236	31 925	-	-
<b>Closing carrying amount</b>	<b>-</b>	<b>5 234 416</b>	<b>1 547 293</b>	<b>324 908</b>	<b>660 427</b>	<b>7 767 044</b>
Gross carrying amount	-	12 145 116	4 063 595	766 291	1 067 371	18 042 373
Accumulated depreciation and impairment losses	-	(6 910 700)	(2 516 302)	(441 383)	(406 944)	(10 275 329)

The category of furniture and office equipment includes equipment leased from third parties under operating leases which are deemed to be finance leases as these assets are utilised for the majority of their useful lives. The assets under deemed finance leases have the following carrying amounts:

#### Assets leased under deemed finance leases

	Furniture and office equipment	
	2016 R	2015 R
Opening carrying amount	2 493 043	36 657
Accumulated depreciation	(42 232)	(36 657)
<b>Closing carrying amount</b>	<b>2 450 811</b>	<b>-</b>

The carrying amount of assets under finance lease are pledged as security for the related liabilities.

Details of the finance lease obligations are disclosed in note 10.

## 8. Investment property

	2016 R	2015 R
Opening carrying amount	6 337 386	6 415 110
Gross carrying amount	8 000 000	8 000 000
Accumulated depreciation and impairment losses	(1 662 614)	(1 584 890)
Depreciation	(94 863)	(77 724)
Transfers	(6 242 523)	-
<b>Closing carrying amount</b>	<b>-</b>	<b>6 337 386</b>
Gross carrying amount	-	8 000 000
Accumulated depreciation and impairment losses	-	(1 662 614)

Investment property comprises land situated at Erf 2901 Mount Road, in the municipality of Port Elizabeth, with an office building thereon. The investment property was transferred to the NRCS as per the agreement reached with the SABs at a fair value of R8 000 000.

The fair value of the investment property was determined periodically by independent valuers based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. The fair value at reporting date was determined to be R6 415 110 as per a valuation performed at 31 March 2014.

During the period under review management decided to use the bulk of the building as storage space. The building was transferred to property, plant and equipment at its carrying value.

## 9. Trade and other payables from exchange transactions

	2016 R	2015 R
Trade payables	5 802 586	7 750 390
Other payables	425 734	28 987
Salary related accruals	5 649 409	5 715 552
Income received in advance	2 977 856	2 072 778
Trade receivables with credit balances <sup>1</sup>	174 161	162 270
Deferred operating lease accrual – current portion	3 753 257	4 508 620
	<b>18 783 003</b>	<b>20 238 597</b>

<sup>1</sup> Trade receivables with credit balances refer to the debtors whose accounts were in credit at reporting date due to credit notes that were issued and not utilised, or overpayments received.



## 10. Interest bearing borrowings

	2016 R	2015 R
Total future minimum finance lease payments	2 980 967	-
- Payable not later than one year	993 656	-
- Payable between two and five years	1 987 311	-
Less: Unpaid future finance charges	(487 924)	-
Present value of future minimum finance lease payments	2 493 043	-
- Payable not later than one year	733 991	-
- Payable between two and five years	1 759 052	-

The lease liabilities are effectively secured, as the rights to the leased assets revert to the lessor in the event of default. The carrying amount of leased assets is R2 450 811 (2015: R Nil) (Refer to note 7).

The fair values are based on discounted cash flows using a discount rate at date of transaction. The carrying amounts of the borrowings approximate their fair values.

None of the finance lease liabilities have purchase options. All finance leases may be renewed three months before expiry date. Escalations are linked to prime bank overdraft rate charged by any cessionary.

## 11. Provisions

### 11.1 Performance bonus

Provision for bonuses payable based on individual and entity performance. No performance bonuses were paid during the reporting period and the provision was consequently reversed.

	2016 R	2015 R
Balance as at the beginning of the year	8 183 831	-
Amount utilised in the current year	-	-
Provision (reversed)/raised during the year	(8 183 831)	8 183 831
Balance as at the end of the year	-	<b>8 183 831</b>

## 11.2 Leave pay

Leave pay includes annual and backlog leave pay provided for in terms of employment contracts and the internal policies of the NRCS. It is expected that these provisions will be realised within the next reporting period.

	2016 R	2015 R
Balance as at the beginning of the year	13 975 822	11 477 170
Amount utilised in the current year	(1 154 912)	(291 557)
Provision raised during the year	2 872 650	2 790 209
Balance as at the end of the year	15 693 560	13 975 822
<b>Total provisions</b>	<b>15 693 560</b>	<b>22 159 653</b>

## 12. Employee benefit obligations

	Post-retirement medical aid R	Long service leave awards R	Total R
<b>2016</b>			
Opening balance	9 301 236	14 485 390	23 786 626
Current service cost	290 047	1 253 937	1 543 984
Interest cost	822 377	1 138 200	1 960 577
Actuarial (profit)/loss	(911 724)	6 189 774	5 278 050
Benefits paid	(142 788)	(2 382 903)	(2 525 691)
<b>Closing balance</b>	<b>9 359 148</b>	<b>20 684 398</b>	<b>30 043 546</b>
Current portion of employee benefit obligations	871 758	2 107 326	2 979 084
Non-current portion of employee benefit obligations	8 487 390	18 577 072	27 064 462

	Post-retirement medical aid R	Long service leave awards R	Total R
<b>2015</b>			
Opening balance	9 141 780	12 044 833	21 186 613
Current service cost	290 325	1 123 770	1 414 095
Interest cost	855 671	1 033 892	1 889 563
Actuarial (profit)/loss	(865 905)	2 206 156	1 340 251
Benefits paid	(120 635)	(1 923 261)	(2 043 896)
<b>Closing balance</b>	<b>9 301 236</b>	<b>14 485 390</b>	<b>23 786 626</b>
Current portion of employee benefit obligations	793 860	763 935	1 557 795
Non-current portion of employee benefit obligations	8 507 376	13 721 455	22 228 831

## 12.1 Post-retirement medical aid obligation

The NRCS contributes 50% of medical aid contributions after retirement of employees, subject to the following conditions:

- The employee was employed before 1 September 1998 (within either **the dti** or the SABs)
- The employee participated in the Bestmed medical aid scheme for at least ten years
- The employee retired after the age of 60.

Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2016.

Key assumptions used (expressed as weighted averages):

	2016	2015
Discount rate per annum	10.03%	8.84%
Medical aid inflation	7.43%	6.46%
Average retirement age	62 years	62 years
Active members expected to continue after retirement	100.00%	100.00%

There are no plan assets for this liability.

### *Sensitivity analysis*

The effects on the central basis liability results for 2016 when the medical aid inflation rate is increased and decreased by 1%.

	Liability R	Change in liability %
<b>+1%</b>	10 665 095	13.95%
<b>Central</b>	9 359 148	
<b>-1%</b>	8 269 667	-11.64%

## 12.2 Long service leave award obligation

The NRCS provides employees, previously employed by the SABS before 1 March 2008, with three additional leave days after five years of service and another three days after ten years of service. Employees' annual leave entitlement is increased with these days. The NRCS's net obligation in this regard is the amount of future benefits that employees have earned in return for their services in current and prior periods. This obligation is valued annually by independent qualified actuaries. Any unrecognised actuarial gains/losses and past service costs are recognised immediately.

A settlement agreement reached with organised labour during the current reporting period has had the impact that in addition to employees that joined the SABS before 1 March 2008 being entitled to the same benefits, employees that joined the NRCS after 1 March 2008 will now be entitled to an additional five leave days after five years of service, another three days after ten years of service and another three days after fifteen years of service.

Key assumptions used (expressed as weighted averages):

	2016	2015
Discount rate per annum	9.15%	7.86%
Salary inflation	7.71%	7.00%

There are no plan assets for this liability.

### *Sensitivity analysis*

The effects on the central basis liability results for 2016 when the discount rate is increased and decreased by 1%.

### *Sensitivity to changes in discount rate*

	Liability R	Change in liability %
<b>+1%</b>	19 282 871	-6.78%
<b>Central</b>	20 684 398	
<b>-1%</b>	22 269 117	7.66%

## 12.3 Historical information relating to employee benefit obligations

	2016 R	2015 R	2014 R	2013 R	2012 R
Post-retirement medical aid liability	9 359 148	9 301 236	9 141 780	10 121 814	7 989 543
Experience adjustments	(911 724)	(865 905)	(1 887 410)	1 312 485	175 000
Long service leave award liability	20 684 398	14 485 390	12 044 833	11 354 901	9 961 812
Experience adjustments	6 189 774	2 206 156	90 534	816 890	908 000

### 13. Exchange revenue

	2016 R	2015 R
Tests and services	7 806 931	6 896 100
Export certification	6 122 371	5 663 914
Vehicle homologation	6 488 555	6 339 499
Letter of authority (LoA)	23 033 348	20 793 009
Electrical compliance certificate	671 999	823 450
Gaming: Letter of compliance	1 099 852	813 867
	<b>45 223 056</b>	<b>41 329 839</b>

### 14. Sundry income

	2016 R	2015 R
Surplus on transfer of functions from SABS (refer to note 25.1)	342 063	-
SETA refunds	300 409	-
Refunds for expenses incurred	1 071 610	783 371
Realised net foreign exchange profit	1 115	-
Rental income	473 007	-
	<b>2 188 204</b>	<b>783 371</b>

### 15. Contract services

	2016 R	2015 R
Internal audit services	535 501	-
IT services	5 191 900	4 994 139
Accreditation	427 265	396 510
Temporary placements	17 516	65 115
HR and labour-related costs	676 171	376 097
Special investigations	847 222	-
National Building Regulations Review Board representation	235 966	387 129
Travel agency commission	376 741	307 665
Other contractual services	300 664	457 121
	<b>8 608 946</b>	<b>6 983 776</b>

## 16. Employment cost

	Notes	2016 R	2015 R
Salaries and wages		187 947 051	177 252 049
Medical aid and other employment benefits		8 735 419	7 510 672
Pension costs		16 854 483	13 006 574
Training costs		4 095 808	3 516 359
Long service awards		162 500	-
Non-executive emoluments	25.5	205 014	461 987
Executive management and other key management emoluments	25.5	15 585 635	12 838 745
		<b>233 585 910</b>	<b>214 586 386</b>
Post-employment healthcare benefits	12	57 912	159 456
Long service leave awards	12	6 199 008	2 440 557
		<b>239 842 830</b>	<b>217 186 399</b>

## 17. Office rentals and other operating lease expenses

	2016 R	2015 R
Rentals in respect of operating leases (minimum lease payments)		
- Land and buildings	12 016 730	12 063 875
- Vehicles	-	17 503
- Equipment	334 877	179 535
	<b>12 351 607</b>	<b>12 260 913</b>

## 18. Other expenditure

	2016 R	2015 R
Included in other expenditure is the following:		
Auditors' remuneration	3 757 212	2 749 918
- Current year	324 754	264 529
- Prior year	3 432 458	2 485 389
Irrecoverable debts	2 545 627	4 340 932
- Irrecoverable debts written off	22 387	480 125
- Irrecoverable debts recovered	(16 638)	(21 514)
- Increase in impairment of trade and other receivables	2 539 878	3 882 321
Casual labour	110 196	185 863
Conferences	-	63 300
Consumables	187 620	39 641
Entertainment	4 937	1 475
Foreign exchange losses	142 816	17 067
Insurance	535 909	462 127
Legal costs	792 133	862 805
Municipal costs	2 451 152	2 781 491
Office and administration expenses	6 108 090	4 422 574
Repairs and maintenance	677 052	527 843
Software costs	1 501 838	3 709 821
Staff recruitment costs	58 850	66 446
Staff welfare costs	780 425	1 320 782
Storage of seized goods	686 827	154 394
Vehicle costs	285 631	232 952
Loss on property, plant and equipment due to theft	1 100	5 445
Loss on derecognition of property, plant and equipment	33 330	92 814
	<b>20 660 745</b>	<b>22 037 690</b>

## 19. Interest received

	2016 R	2015 R
Cash equivalents – financial assets at amortised cost	13 852 932	10 760 858
Trade debtors	540 831	262 062
	<b>14 393 763</b>	<b>11 022 920</b>



## 20. Finance cost

	2016 R	2015 R
Finance lease charges	-	2 069
	-	<b>2 069</b>

## 21. Notes to the Cash Flow Statement

	2016 R	2015 R
<b>Reconciliation of net surplus to cash generated from operations</b>		
<b>Operating (deficit)/surplus for the period</b>	<b>(12 777 694)</b>	<b>41 391 271</b>
<b>Adjustments for non-cash items:</b>	<b>5 670 110</b>	<b>20 435 969</b>
Surplus on transfer of functions from the SABs	(342 063)	-
Fair value building rented from the SABs	342 063	-
Depreciation on property, plant and equipment	2 351 773	2 094 347
Amortisation of intangible assets	835 953	520 697
Depreciation on investment property	94 863	77 724
Irrecoverable debts written off	22 387	480 125
Loss on property, plant and equipment due to theft	1 100	5 445
Loss on derecognition of property, plant and equipment	33 330	92 814
Carrying amount of assets disposed	33 330	92 814
Proceeds of disposal	-	-
Provision for employee benefit obligations	8 782 611	4 643 909
Employee benefits paid from provision	(2 525 691)	(2 043 896)
(Decrease)/increase in provisions	(6 466 093)	10 682 483
Increase in impairment of trade and other receivables	2 539 877	3 882 321
<b>Operating surplus before working capital changes</b>	<b>(7 107 584)</b>	<b>61 827 240</b>
<b>Changes in working capital</b>	<b>(1 705 774)</b>	<b>(15 805 807)</b>
Increase in trade and other receivables from exchange transactions	(1 117 207)	(6 607 879)
Decrease/(increase) in trade and other receivables from non-exchange transactions	867 027	(7 187 266)
Decrease in trade and other payables	(1 455 594)	(2 010 662)
<b>Cash flows from operating activities</b>	<b>(8 813 358)</b>	<b>46 021 433</b>

## 22. Segment information

### 22.1 Reportable segments

The NRCS is organised and reports to management on the basis of seven major functional areas.

The segments were organised by the type of service delivered and the applicable industry in which these operate.

These segments are:

- Automotive
- Chemical, Mechanical and Materials (CMM)
- Electro-technical
- Foods and Associated Industries (FAI)
- Legal Metrology (LM)
- National Building Regulations (NBR)
- Regulatory Research and Development (RR&D)

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes. Segments were not aggregated for reporting purposes.

The NBR and RR&D segments of the NRCS do not meet the criteria for reportable segments and therefore the results for these two segments are not reported.

Information relating to segment assets and liabilities are not disclosed as these are not separately reported to management.

Information relating to geographical segments is not disclosed as the NRCS operates within the confines of the Republic of South Africa and geographical segments are not used for the purposes of management reporting.

The NRCS does not supply services between its own segments, therefore no inter-segment transfers have been eliminated.

## 22.2 Segment revenues, expenses and results

	2016 R'000						
	Automotive	CMM	Electro-technical	FAI	LM	Unallocated	Total
<b>Revenue</b>							
<i>Non-exchange revenue</i>	<b>45 617</b>	<b>23 058</b>	<b>61 296</b>	<b>29 943</b>	<b>32 181</b>	<b>56 027</b>	<b>248 122</b>
Levies for compulsory specifications	43 818	23 058	61 296	21 888	-	4 531	154 591
Transport annual registration fee	1 799	-	-	-	-	-	1 799
Government grants and core funding	-	-	-	8 055	32 181	51 496	91 732
<i>Exchange revenue</i>	9 758	429	20 270	7 031	7 726	9	45 223
<i>Sundry income</i>	-	-	998	-	-	1 190	2 188
<b>Total revenue</b>	<b>55 375</b>	<b>23 487</b>	<b>82 564</b>	<b>36 974</b>	<b>39 907</b>	<b>57 226</b>	<b>295 533</b>
<b>Expenses</b>	<b>41 660</b>	<b>23 605</b>	<b>39 853</b>	<b>41 956</b>	<b>47 370</b>	<b>113 867</b>	<b>308 311</b>
Employment cost	34 893	20 834	33 699	36 995	42 057	71 365	239 843
Depreciation and amortisation	106	53	59	208	638	2 219	3 283
Other expenses	6 661	2 718	6 095	4 753	4 675	40 283	65 185
Interest received	-	-	-	-	-	14 394	14 394
Finance cost	-	-	-	-	-	-	-
<b>Allocation of overheads</b>	<b>(13 977)</b>	<b>(5 928)</b>	<b>(20 840)</b>	<b>(9 333)</b>	<b>(10 073)</b>	<b>60 151</b>	<b>-</b>
<b>Surplus/(deficit) for the period</b>	<b>(262)</b>	<b>(6 046)</b>	<b>21 871</b>	<b>(14 315)</b>	<b>(17 536)</b>	<b>17 904</b>	<b>1 616</b>

	2015 R'000						
	Automotive	CMM	Electro- technical	FAI	LM	Unallocated	Total
<b>Revenue</b>							
<i>Non-exchange revenue</i>	<b>48 795</b>	<b>27 635</b>	<b>68 449</b>	<b>29 906</b>	<b>38 496</b>	<b>64 509</b>	<b>277 790</b>
Levies for compulsory specifications	47 176	27 635	68 449	20 270	-	2 907	166 437
Transport annual registration fee	1 619	-	-	-	-	-	1 619
Government grants and core funding	-	-	-	9 636	38 496	61 602	109 734
<i>Exchange revenue</i>	9 261	711	18 539	6 548	6 251	19	41 329
<i>Sundry income</i>	-	214	391	-	-	178	783
<b>Total revenue</b>	<b>58 056</b>	<b>28 560</b>	<b>87 379</b>	<b>36 454</b>	<b>44 747</b>	<b>64 706</b>	<b>319 902</b>
<b>Expenses</b>	<b>36 714</b>	<b>23 621</b>	<b>35 287</b>	<b>41 344</b>	<b>44 507</b>	<b>97 038</b>	<b>278 511</b>
Employment cost	33 426	20 321	29 711	35 716	40 388	57 624	217 186
Depreciation and amortisation	154	54	70	225	560	1 630	2 693
Other expenses	3 134	3 246	5 506	5 403	3 559	37 784	58 632
Interest received	-	-	-	-	-	11 023	11 023
Finance cost	-	-	-	-	-	(2)	(2)
<b>Allocation of overheads</b>	<b>(7 692)</b>	<b>(3 783)</b>	<b>(11 575)</b>	<b>(4 829)</b>	<b>(5 928)</b>	<b>33 807</b>	<b>-</b>
<b>Surplus/ (deficit) for the period</b>	<b>13 650</b>	<b>1 156</b>	<b>40 517</b>	<b>(9 719)</b>	<b>(5 688)</b>	<b>12 496</b>	<b>52 412</b>

## 23. Commitments

	2016 R	2015 R
Commitments for the acquisition of property, plant and equipment and intangible assets (contracted)	494 508	4 023 775
Commitments for operating expenditure at year end	8 504 305	11 421 742
<b>Operating lease commitments – the company as lessee</b>		
The future minimum payments payable under non-cancellable operating leases are as follows:		
<b>Buildings</b>		
- Payable within one year	10 579 712	5 128 793
- Payable between two and five years	27 222 948	13 918 798

The lease agreement concluded with the SABS during the period under review contains an escalation clause that is linked to CPI. Therefore, the lease agreement has not been straight-lined and inflation related increases are viewed as contingent rental. None of the other lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. The entity does not have the option to purchase any property. Escalation clauses on these contracts vary from contract to contract averaging between 8% and 10%. The leases may be renewed not later than three calendar months before the expiry of the initial period of the lease.

## 24. Financial risk management

### 24.1 Foreign currency risk management

Foreign currency exposures arise from the purchase of capital equipment. When orders are placed the risk is assessed to determine whether or not forward cover is required.

#### *Forward exchange contracts – recognised transactions*

No forward exchange contracts were entered into during the reporting periods ended 31 March 2016 and 31 March 2015.

## 24.2 Interest rate risk management

The entity is exposed to interest rate risk as it places funds in the current and investment account at floating interest rates. Interest rate risk is managed through effective cash management.

The interest rate re-pricing profile at 31 March is summarised as follows:

	2016 R	2015 R
	Floating rate	Floating rate
Cash and cash equivalents	199 846 747	206 669 158
% of total bank balances	100%	100%

If interest rates on 31 March 2016 had been 100 basis points (1%) higher or lower (and all other variables remained constant), the surplus for the period would have been R1 998 467 (2015: R2 066 940) lower or higher.

## 24.3 Liquidity risk management

The entity manages liquidity risk through the compilation and monitoring of cash flow forecasts as well as ensuring that there are adequate banking facilities.

The maturity profiles of the financial instruments are summarised as follows:

	Within 1 month R	1–3 months R	3–12 months R	1–5 years R	Total R
<b>2016</b>					
<b>Financial liabilities</b>					
Trade and other payables	(6 228 320)	(4 071 547)	(4 555 718)	(3 927 418)	(18 783 003)
Interest bearing borrowings	(82 805)	(248 415)	(662 436)	(1 987 311)	(2 980 967)

	Within 1 month R	1–3 months R	3–12 months R	1–5 years R	Total R
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### 2015

#### Financial liabilities

Trade and other payables	(7 779 377)	(7 788 330)	-	(4 670 890)	(20 238 597)
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The data for this analysis is determined from internal reports presented to key management personnel. It is based on information that is managed internally on the entity's financial management system.

## 24.4 Credit risk management

Potential concentrations of credit risk consist mainly of cash and cash equivalents and trade receivables.

The NRCS limits its counterparty exposures from its bank accounts by only dealing with established financial institutions of high quality credit standing. The credit exposure to any one counterparty is managed by monitoring transactions.

Surplus funds are invested with the Reserve Bank of South Africa in compliance with the Treasury Regulations.

Trade receivables comprise a large number of customers, dispersed across different industries and geographical areas. All new customers must pay in advance for tests and services rendered. Trade and other receivables are shown net of impairment.

At 31 March 2016, the NRCS did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for. The amount in the Statement of Financial Position is the maximum exposure to credit risk.

## 25. Related party transactions

### 25.1 Transactions with related parties

During the year under review the SABS and the NRCS concluded a rental agreement that contains a 15% discount on rental from 1 December 2015.

The impact of the rental agreement on the Financial Statements is listed below:

	2016 R	2015 R
Fair value of non-exchange transaction as per rental agreement	342 063	-
<b>Net assets transferred</b>	<b>342 063</b>	<b>-</b>

## 25.2 Purchases from related parties

	Purchases R	Balance outstanding R
<b>2016</b>		
<b>National government business enterprises</b>		
South African Bureau of Standards (SABS)*	14 213 948	2 239 071

	Purchases R	Balance outstanding R
<b>2015</b>		
<b>National government business enterprises</b>		
South African Bureau of Standards (SABS)*	14 244 147	4 859 593

\* Included in this amount is an amount of R1 480 283 (2015: R3 885 499) relating to recovery of the 50% portion and escalation of the SABS rental for the period under review (refer to note 25.1).

## 25.3 Exchange revenue from related parties

	Sales R	Balance outstanding R
<b>2016</b>		
South African Bureau of Standards (SABS)	467 222	436 791

	Sales R	Balance outstanding R
<b>2015</b>		
South African Bureau of Standards (SABS)	43 878	10 119

Levies and other receipts to the value of RNil (2015: R24 489) were collected and paid by SABS to the NRCS.

## 25.4 Non-exchange revenue from related parties

	2016 R	2015 R
Received from <b>the dti</b>	91 732 000	109 734 000



## 25.5 Key management personnel compensation

The following emoluments were paid to the Board members. These amounts do not include travel expenses paid by the NRCS on behalf of the Board members:

	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
<b>2016</b>				
<b>Non-executive: Audit and Risk Committee members</b>				
SAH Kajee (Chairperson)		116 779	-	116 779
AD Cowell		87 355	880	88 235
F Britz	A	-	-	-
Z Hlongwa	A	-	-	-
<b>Total non-executive remuneration</b>		<b>204 134</b>	<b>880</b>	<b>205 014</b>

	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
<b>2015</b>				
<b>Non-executive: Board members</b>				
J Molobela (Chairperson)	B	61 462	891	62 353
FA Melato	B	39 794	1 069	40 863
SE Moolman	B	29 696	413	30 109
DN Ndaba	B	50 678	3 975	54 653
Prof. S Perumal	B	32 154	-	32 154
P Serote	B	11 028	-	11 028
NMW Vermeulen	B	28 404	1 782	30 186
S Zikode	A	-	-	-
		<b>253 216</b>	<b>8 130</b>	<b>261 346</b>
<b>Non-executive: Audit and Risk Committee members</b>				
SAH Kajee (Chairperson)		111 549	-	111 549
AD Cowell		65 000	2 365	67 365
T Mofokeng		21 450	277	21 727
K Naidoo	A	-	-	-
		<b>197 999</b>	<b>2 642</b>	<b>200 641</b>
<b>Total non-executive remuneration</b>		<b>451 215</b>	<b>10 772</b>	<b>461 987</b>

A. the dti representatives not remunerated by the NRCS.

B. The Board was dissolved following the proclamation of the Legal Metrology Act on 31 July 2014.

The following emoluments were paid to the CEO and his direct reportees:

	Notes	Basic salary R	Retirement and medical aid R	Other allowances R	Total R
<b>2016</b>					
<b>Executive</b>					
A Moodley – CEO	A	1 814 421	-	79 200	1 893 621
MC Thibela – Deputy CEO	B	1 183 361	110 840	16 500	1 310 701
R Mathura – CFO		1 108 274	137 110	76 272	1 321 656
<b>Total executive remuneration</b>		<b>4 106 056</b>	<b>247 950</b>	<b>171 972</b>	<b>4 525 978</b>
<b>Key management</b>					
SH Carstens	D	400 515	44 888	1 800	447 203
FLR Fourie	E	567 802	69 943	33 000	670 745
A Hirachund		1 083 290	162 537	7 200	1 253 027
MN Katz		1 056 487	145 588	7 200	1 209 275
B Khanyile		1 109 714	139 427	7 200	1 256 341
MT Madzivhe		1 106 149	139 678	7 200	1 253 027
PN Mazibuko		1 103 072	142 755	7 200	1 253 027
P Mazibuko	F	653 902	64 683	4 050	722 635
MS Mkhabela		911 356	87 984	15 672	1 015 012
T Magolego	G	758 030	129 953	66 476	954 459
R Mbukwane	G	732 745	103 429	188 732	1 024 906
<b>Total key management remuneration</b>		<b>9 483 062</b>	<b>1 230 865</b>	<b>345 730</b>	<b>11 059 657</b>
<b>Total remuneration</b>		<b>13 589 118</b>	<b>1 478 815</b>	<b>517 702</b>	<b>15 585 635</b>

The following emoluments were paid to the CEO and his direct reportees:

	Notes	Basic salary R	Retirement and medical aid R	Other allowances R	Total R
<b>2015</b>					
<b>Executive</b>					
A Moodley – CEO	A	1 653 588	-	83 600	1 737 188
MC Thibela – Acting deputy CEO	B	120 171	15 622	57 489	193 282
R Mathura – CFO		1 106 901	126 418	59 462	1 292 781
<b>Total executive remuneration</b>		<b>2 880 660</b>	<b>142 040</b>	<b>200 551</b>	<b>3 223 251</b>
<b>Key management</b>					
SH Carstens		1 009 440	178 640	7 200	1 195 280
FLR Fourie		1 005 938	160 514	31 200	1 197 652
A Hirachund		1 036 709	152 571	7 200	1 196 480
MN Katz		1 016 058	126 170	7 200	1 149 428
B Khanyile		1 080 144	132 331	7 200	1 219 675
MT Madzivhe		1 058 976	130 094	7 200	1 196 270
PN Mazibuko		1 059 807	124 934	7 200	1 191 941
R Mbukwane	C	192 705	32 016	139 790	364 511
MS Mkhabela		810 039	78 546	15 672	904 257
<b>Total key management remuneration</b>		<b>8 269 816</b>	<b>1 115 816</b>	<b>229 862</b>	<b>9 615 494</b>
<b>Total remuneration</b>		<b>11 150 476</b>	<b>1 257 856</b>	<b>430 413</b>	<b>12 838 745</b>

A. The CEO is also a Board member in terms of the NRCS Act, Act No. 5 of 2008.

B. **the dti** representative seconded from 1 February 2015. Mr Thibela was permanently appointed by the NRCS from 1 May 2015.

C. Acting as General Manager from 1 December 2014.

D. Mr Carstens retired effective 30 June 2015.

E. Mr Fourie retired effective 31 August 2015.

F. Mrs Mazibuko appointed on 1 July 2015.

G. Acting as General Managers on a rotational basis.

## 26. Contingent liabilities

The following contingent liabilities exist at reporting date:

- Section 53(3) of the PFMA states that a public entity may not accumulate surpluses unless prior written approval of the National Treasury has been obtained. Application to retain 2015 surpluses has been approved by Treasury, but the application has not yet been submitted for the current reporting period.
- A summons was issued to the NRCS due to the destruction of goods that had not had a valid Letter of Authority (LoA). The importer later obtained a valid LoA and is claiming the cost price in US Dollars from the NRCS. The NRCS has not yet responded to the summons as the amount cannot be reliably determined due to exchange rate negotiations. The current estimate of the claim is R70 744 based on the exchange rate at reporting date.

## 27. Fruitless and wasteful expenditure

### 27.1 Fruitless and wasteful expenditure

	2016 R	2015 R
<b>Opening balance</b>	<b>451 706</b>	<b>440 104</b>
- Interest paid	45 733	34 131
- Duplicated services	387 169	387 169
- Training paid for and not attended	18 804	18 804
<b>Fruitless and wasteful expenditure incurred during the reporting period</b>	<b>53 409</b>	<b>11 602</b>
- Interest paid	53 409	11 602
<b>Fruitless and wasteful expenditure condoned during the reporting period</b>	<b>(32 219)</b>	<b>-</b>
<b>Closing balance</b>	<b>472 896</b>	<b>451 706</b>

Investigations into fruitless and wasteful expenditure that has not been condoned are in progress.

### 27.2 Losses through criminal conduct

	2016 R	2015 R
Equipment stolen derecognised at carrying value	1 100	5 445

Insurance claims have been submitted for these assets in the cases where it was economically viable to do so.

## 28. Irregular expenditure

Treasury Regulation 16A6.1 states that the procurement of goods and services should be by way of quotation, using the Preferential Point system for amounts exceeding R30 000 or through a bidding process where the amounts exceed R500 000 as determined by National Treasury. Contract payments originating in the current reporting period did not comply with the above procedures to the value of R109 133 (2015: R7 291 817 of which R6 629 896 relates to payments made in respect of the SABS rental).

	2016 R	2015 R
<b>Opening balance</b>	<b>93 160</b>	<b>1 195 964</b>
<b>Irregular expenditure – current year</b>	<b>109 133</b>	<b>7 291 817</b>
- Payments affected on expired contracts	-	6 982 827
- Payments contravening Treasury Regulations	109 133	308 990
<b>Amounts condoned during the year</b>	<b>-</b>	<b>(8 394 621)</b>
<b>Closing balance</b>	<b>202 293</b>	<b>93 160</b>
- Payments affected on expired contracts	93 160	93 160
- Payments contravening Treasury Regulations	109 133	-
<b>Analysis of expenditure awaiting condonation</b>		
Other irregular expenditure	202 293	93 160
<b>Total</b>	<b>202 293</b>	<b>93 160</b>

## 29. Change in estimate

During the reporting period the useful lives and residual values of property, plant and equipment were reviewed. The effect on the Statement of Financial Performance is as follows:

	2016 R
Decrease in depreciation – property, plant and equipment	51 647

### 30. Re-classification of prior year figures

The following items of receivables and revenue have been re-classified during the reporting period:

	2015 (previously reported) R	Re- classification R	2015 R
<b>Statement of Financial Position</b>			
<b>Assets</b>			
<i>Current assets</i>			
Trade and other receivables from exchange transactions	9 281 917	(307 972)	8 973 945
Trade and other receivables from non-exchange transactions	14 361 435	307 972	14 669 407
<b>Statement of Financial Performance</b>			
<b>Non-exchange revenue</b>			
Levies for compulsory specifications	165 502 808	934 020	166 436 828
<b>Exchange revenue</b>			
Revenue from services rendered	42 263 859	(934 020)	41 329 839

### 31. Approval of Annual Financial Statements

The audited Annual Financial Statements were approved by the NRCS Accounting Authority and submitted for audit on 31 May 2016.





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