

# ANNUAL REPORT

2016/17





# Table of contents

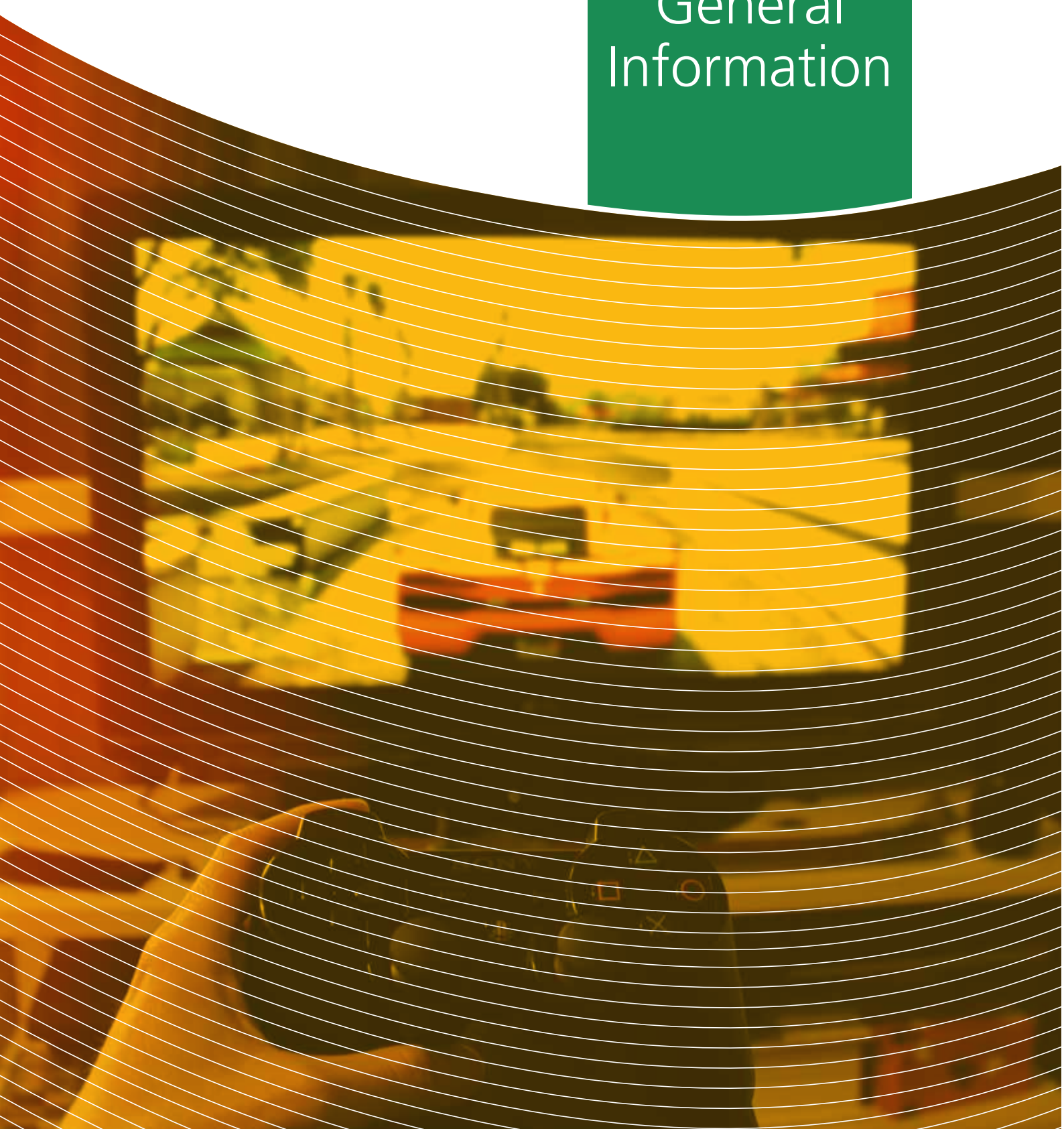
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<b>Part A: General information.....</b>	<b>2</b>
NRCS information.....	3
Abbreviations/acronyms.....	3
Minister's Foreword.....	5
CEO's Foreword.....	7
Statement of responsibility and confirmation of accuracy for the Annual Report.....	10
Strategic overview.....	11
Legislative and other mandates.....	12
Organisational structure.....	13
<b>Part B: Performance information.....</b>	<b>14</b>
Auditor's report: predetermined objectives.....	15
Performance information by objective.....	16
Business units' performance.....	20
<b>Part C: Governance.....</b>	<b>50</b>
Introduction.....	51
Executive Authority.....	51
Accounting Authority.....	51
Risk management.....	52
Internal control.....	52
Internal audit.....	52
Fraud and corruption.....	53
Minimising conflict of interest.....	53
Code of conduct.....	54
Health, safety and environment.....	54
Company secretary.....	54
Social responsibility.....	54
Audit and Risk Committee responsibility.....	54
<b>Part D: Human Resources overview.....</b>	<b>56</b>
Human Resources overview.....	57
HR oversight statistics.....	58
<b>Part E: Financial information.....</b>	<b>76</b>
Report of the Auditor-General to Parliament on the National Regulator for Compulsory Specifications..	77
Statement of Financial Position.....	82
Statement of Financial Performance.....	83
Statement of Changes in Net Assets.....	84
Cash Flow Statement.....	85
Statement of Comparison of Budget and Actual Amounts.....	86
Notes to the Annual Financial Statements.....	89



# PART A

## General Information



# NRCS information

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<b>Registered name</b>	National Regulator for Compulsory Specifications (NRCS)
<b>Physical address</b>	SABS Campus, 1 Dr Lategan Road, Groenkloof, Pretoria
<b>Postal address</b>	Private Bag X25, Brooklyn 0075
<b>Telephone number</b>	+27 12 482 8700
<b>Fax number</b>	+27 12 428 5199
<b>E-mail address</b>	nrcs@nrcs.org.za
<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

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<b>AA</b>	Accounting Authority
<b>AGSA</b>	Auditor-General of South Africa
<b>BCO</b>	Building Control Officer
<b>BCOCC</b>	Border Control Operational Coordinating Committee
<b>BMA</b>	Border Management Agency
<b>CAC</b>	Codex Alimentarius Commission
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CIML</b>	International Committee of Legal Metrology
<b>COGTA</b>	Department of Cooperative Governance and Traditional Affairs
<b>CMM</b>	Chemicals Mechanicals and Materials
<b>CRM</b>	Customer Relations Management
<b>DEA</b>	Department of Environmental Affairs
<b>DoE</b>	Department of Energy
<b>DoH</b>	Department of Health
<b>DAFF</b>	Department of Agriculture, Forestry and Fisheries
<b>DoT</b>	Department of Transport
<b>EU</b>	European Union
<b>FAI</b>	Food and Associated Industries
<b>HR</b>	Human Resources
<b>ICT</b>	Information and Communication Technology
<b>IEC</b>	International Electrical Commission

# Abbreviations/acronyms

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<b>IPAP</b>		Industrial Policy Action Plan
<b>ISO</b>		International Standardization Organization
<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>MIB</b>		Manufacturers, Importers and Builders
<b>MSP</b>		Master System Plan
<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>NRCS</b>		National Regulator for Compulsory Specifications
<b>OIML</b>		International Organization of Legal Metrology
<b>PAC</b>		Project Approvals Committee
<b>PFMA</b>		Public Finance Management Act
<b>PPE</b>		Personal protective equipment
<b>RR&amp;D</b>		Regulatory Research and Development
<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>WTO</b>		World Trade Organization

# Minister's Foreword

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The NRCS is the Competent Authority in South Africa facilitating the registration of South African companies exporting products to the European Union (EU) and the Far East. The Broad mandate of the NRCS is to promote public health and safety, protect the environment and promote fair trade. In addition to the establishment of a sound regulatory infrastructure, this annual report reflects NRCS' effort in executing its mandate. At the heart of NRCS operations going forward is the emphasis on the risk-based approach to regulation, which was partially rolled out during the year under review. This had a significant impact on the effectiveness of the organisation, particularly the facilitation of pre-market approvals (Letters of Authority) applications.



To our stakeholders this report outlines NRCS' work, our efforts in protecting consumers and creating an enabling environment for business in support of **the dti** and government at large. South Africa continues to face an onslaught of imports, some of which may well pose serious health, safety and environmental threats to the country and its people. This is more prevalent among low-cost products that are mostly attractive to the poor and most vulnerable people in South Africa because of their affordability, which places an increased pressure on the NRCS to increase its vigilance to ensure compliance with technical regulations. Through our efforts, non-compliant products worth an estimated R239 million were removed from the market.

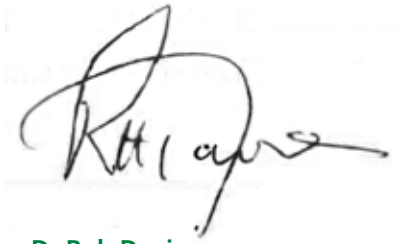
In an effort to remove non-compliant and unsafe products that many South Africans are exposed to on a daily basis, some of which contribute to shack fires, the NRCS distributed safe paraffin stoves in exchange for unsafe and dangerous ones across a number of informal settlements within the country.

Furthermore, the NRCS continued with its responsibility in facilitating trade in fish and fishery products. As the Competent Authority, the NRCS issued 9 522 health guarantees which ensured that all exported fishery and associated products were accepted in foreign markets and a further 6 819 compliance certificates were issued for imported fishery consignments that were certified safe for human consumption.

Due to a lack of necessary information technology investments, the NRCS has not always had the intelligence information and systems that it requires to achieve the desired impact and high levels of effectiveness. This partly led to an increase in the number of Letters of Authority applications that were not timeously processed. I am encouraged by the efforts from the NRCS, especially in the last half of the year, that led to a decrease in the number of LoA applications in Electro-Technical from 4 285 at the end of the 2015/16 financial year to 2 955. In its relentless pursuit of improved efficiency, the NRCS commenced with a project that is geared towards automating a number of systems and processes that will enable the organisation to be an evidence/intelligence driven institution.

Notwithstanding these positives, the leadership of the NRCS still need to be strengthened in order to drive the organisation forward. The desired future of NRCS is an organisation that will utilise resources effectively and will be able to apply them to build a culture of compliance with compulsory specifications. This will be achieved through investment in human capital, investment in information technology, development of sound regulatory models, sound implementation of the risk-based approach, and focused research that will develop an evidence-based understanding where compliance gaps exist. It will also inform a multifaceted deployment of resources to close these compliance gaps over time. NRCS interventions will not only be focused on inspections and enforcement but on positive measures such as industry compliance projects and consumer awareness campaigns.

I am pleased to present this report and firmly believe that with greater guidance from **the dti**, the NRCS will be able to resolve the recurring challenges relating to revenue qualification and concerns raised by the Auditor-General of South Africa.



**Dr Rob Davies**  
**Minister of Trade and Industry**  
31 JULY 2017



# CEO's Foreword

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The mandate of the NRCS is to protect public health, safety and the environment and promote fair trade, which is achieved through ensuring 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 with providing 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. Effective regulation of the industry depends on strong implementation strategies and partnerships with other government entities and stakeholders and the NRCS is committed to working with its stakeholders to resolve 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), South African Revenue Service (SARS), South African Police Service (SAPS), Department of Agriculture, Forestry and Fisheries (DAFF), Department of Environmental Affairs (DEA), Department of Health (DoH) and the Department of Transport (DoT), in keeping non-compliant products out of trade.

The economic role of the NRCS is intertwined with its primary role as a regulator, which it needs to fulfil effectively and efficiently. The balancing act requires the NRCS to work closely with other government institutions and more importantly regulated products. The NRCS has a project running with SARS and has started to implement programmes to work closely with industry role players 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 pilot phase of the Self-Compliance Programme will be rolled out during 2017/18, initially targeting large retailers. The programme will be cascaded down to smaller retailers in future.

## Operational performance

### Risk-based approach

The NRCS piloted a risk-based approach to inspections and approvals, to effectively regulate the market and efficiently use both the financial and human resources at its disposal. The NRCS' risk-based approach is centred on product risk, company risk and country of origin risk. In implementing this approach, the NRCS will continue to work with regulated industries and other government agencies to bring efficiency into the regulatory processes. It is highly beneficial for industries to ensure compliance with both administrative and technical requirements, as these factors strongly determine the risk of the company, which in turn increases the efforts of the NRCS and its approvals turnaround times.

## Approvals

The NRCS issued 17 484 certificates for pre-market approvals which is 85% more than the number of certificates issued in 2015/16. Approximately 69% of the approved applications were for electro-technical products, 21.6% for automotive, 1.8% for chemical, materials and mechanical and 7.6% for measuring instruments and gaming machines. Furthermore, in promoting South African products and facilitating trade, 9 522 health guarantees were issued for fisheries and associated product consignments destined for the EU and Far East.

## Non-compliances

Non-compliant products remain the greatest challenge to the NRCS. This was fuelled by industry participants who continued to import products prior to the approval certificate being granted and the non-compliance behaviour culture by some role players. The NRCS has started to explore different strategies to deal with the importation (including the viability of refusing to off-load products that do not have a valid approval certificate at the port of entry) or supply of products prior to approval being granted.

During 2016/17, non-compliant and unsafe products to the value of R239 million were removed from the market. The value of the products found non-compliant, that were either removed from the market or corrected before being sold in terms of the Legal Metrology Act, Act No. 9 of 2014 (LMA), amounted to R116 million. Non-compliant products included paraffin stoves, personal protective equipment, electrical adaptors, incandescent lamps, water pumps, dishwashers, luminaires, 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.

## Market surveillance

The NRCS undertook 48 634 inspections across all industries, with inspections across the automotive, chemical, mechanical, electro-technical and metrology industries amounting to 20 261. In addition, the NRCS inspected all declared export consignments, as well as locally produced and imported fishery and associated products for compliance. A total of 26 384 inspections were conducted for export consignments, and local and imported fisheries and processed meat consignments. The NRCS is pleased to be recognised as a Competent Authority by the Russian Federation, resulting in South African fishery producers are now allowed to be exported to Russia.

## Information technology

All entities within the electro-technical industry applying for approval certificates submitted applications online. The NRCS is embarking on ICT modernisation project which will include procurement of Enterprise Resource Planning (ERP) system that will address its human resources, payroll, financial management and automation of operations such as approvals and inspections. This will enable the NRCS to intergrate its internal systems and linkage with other external entities. Implementation is expected by the end of 2018/19.

## Facilities

To cover the regulated market efficiently, the head office is located in Pretoria, with four regional offices based in Cape Town, Durban, Port Elizabeth and Bloemfontein, and a satellite office in Hermanus in the Western Cape. During the reporting period, the NRCS' office in Port Elizabeth was gutted by fire and the building was partially destroyed. The building will, however, be refurbished during the 2017/18 and 2018/19 financial years.

## Humand resources

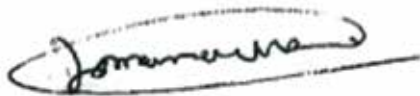
The NRCS continues to invest in staff development programmes to enhance their skills. During the year the NRCS experienced capacity challenges, with the resignation of key personnel which included the CEO, CFO, General Manager Automotive, General Manager National Building Regulations and Head of ICT.

## Conclusion

The NRCS made significant progress in eliminating the backlog of approval applications. As part of the measures to permanently address the challenges, the NRCS appointed additional staff within the Electro-technical Business Unit and is implementing the risk-based approach to approvals.

During the year, the NRCS reviewed some of its operating processes, implemented stronger internal controls and enhanced operating procedures. Although management and staff worked tirelessly to address internal control deficiencies, the organisation received a qualified audit opinion, as noted by the Auditor-General of South Africa (AGSA). Management will continue to improve the internal control environment, work with the Department of Trade and Industry (**the dti**) and will engage the Auditor-General of South Africa (AGSA) to find a solution to the revenue qualification.

I wish to acknowledge and express my gratitude to all NRCS employees for the achievements during the financial year. My appreciation also goes to the Portfolio Committee of Trade and Industry, NRCS Audit and Risk Committee, NRCS ICT Steering Committee and **the dti**.



**Edward Mamadise**  
**Acting Chief Executive Officer**

31 July 2017

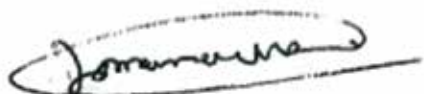
# Statement of responsibility and confirmation of accuracy for the Annual Report

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

- All information and amounts disclosed in the Annual Report are consistent with the Annual Financial Statements audited by the 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 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 2017.



**Edward Mamadise**  
**Acting Chief Executive Officer**

31 July 2017

# Strategic overview

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

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

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

**Ethical** – 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 with equitability and be transparent on how we perform our functions.



# Legislative and other mandates

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The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 as an agency of **the dti**. Its broad mandate is to promote public health and safety, environmental protection and fair trade through the administration, maintenance and enforcement of Technical Regulations (TRs) and Compulsory Specifications (VCs).

The legislative mandate of the NRCS is derived from:

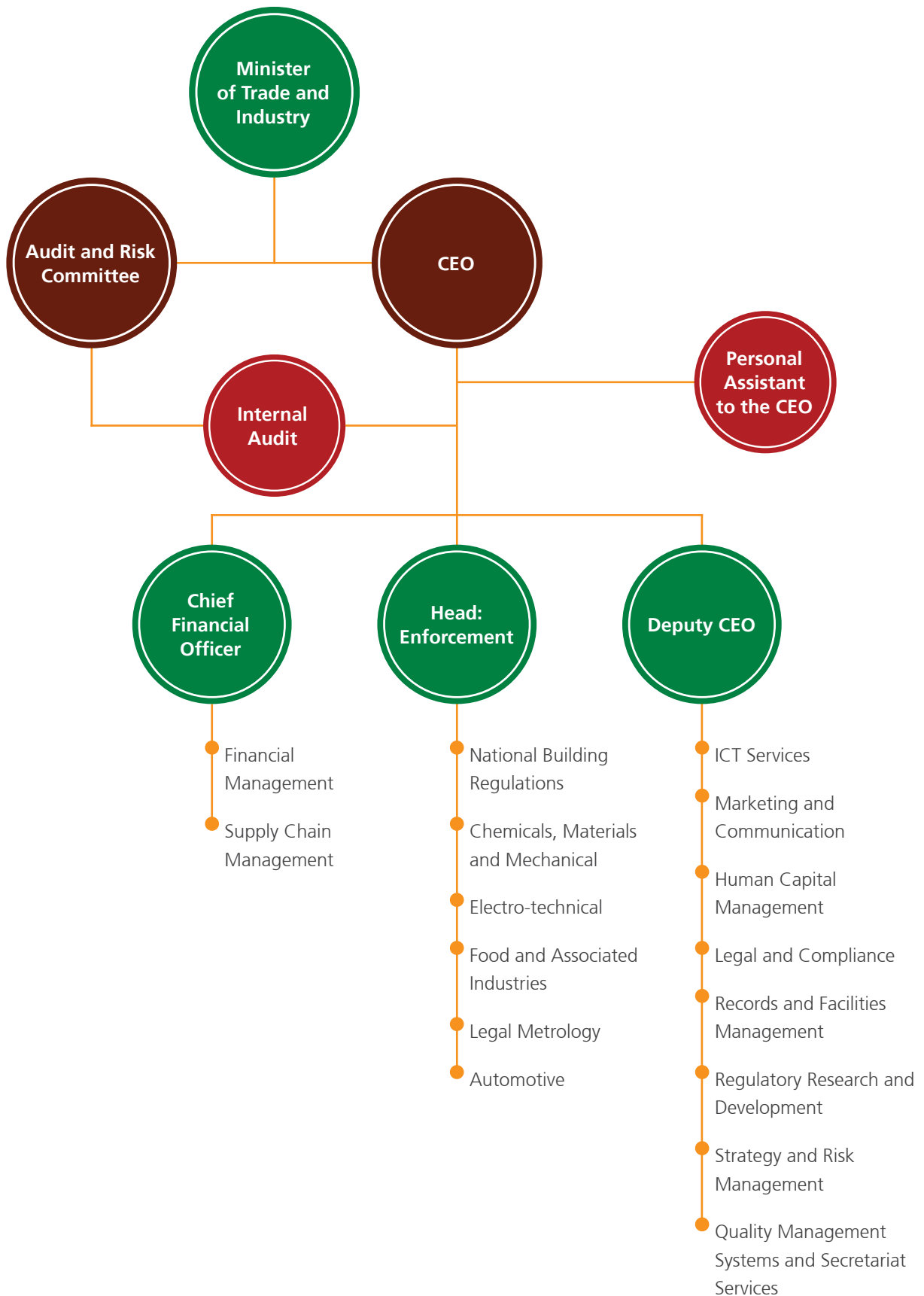
- The National Regulator for Compulsory Specifications Act, Act No. 5 of 2008 (NRCS Act);
- The Legal Metrology Act, Act No. 9 of 2014 (LMA);
- The National Building Regulations and Building Standards Act, Act No.103 of 1977 (NBR&BS Act);
- The Public Finance Management Act, Act No.1 of 1999 (PFMA) and
- National Road Traffic Act, Act No. 93 of 1996.

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

In addition to its legislative mandate, the NRCS' Strategy is aligned with that of the Department of Trade and Industry, specifically with regard to the following strategic objectives:

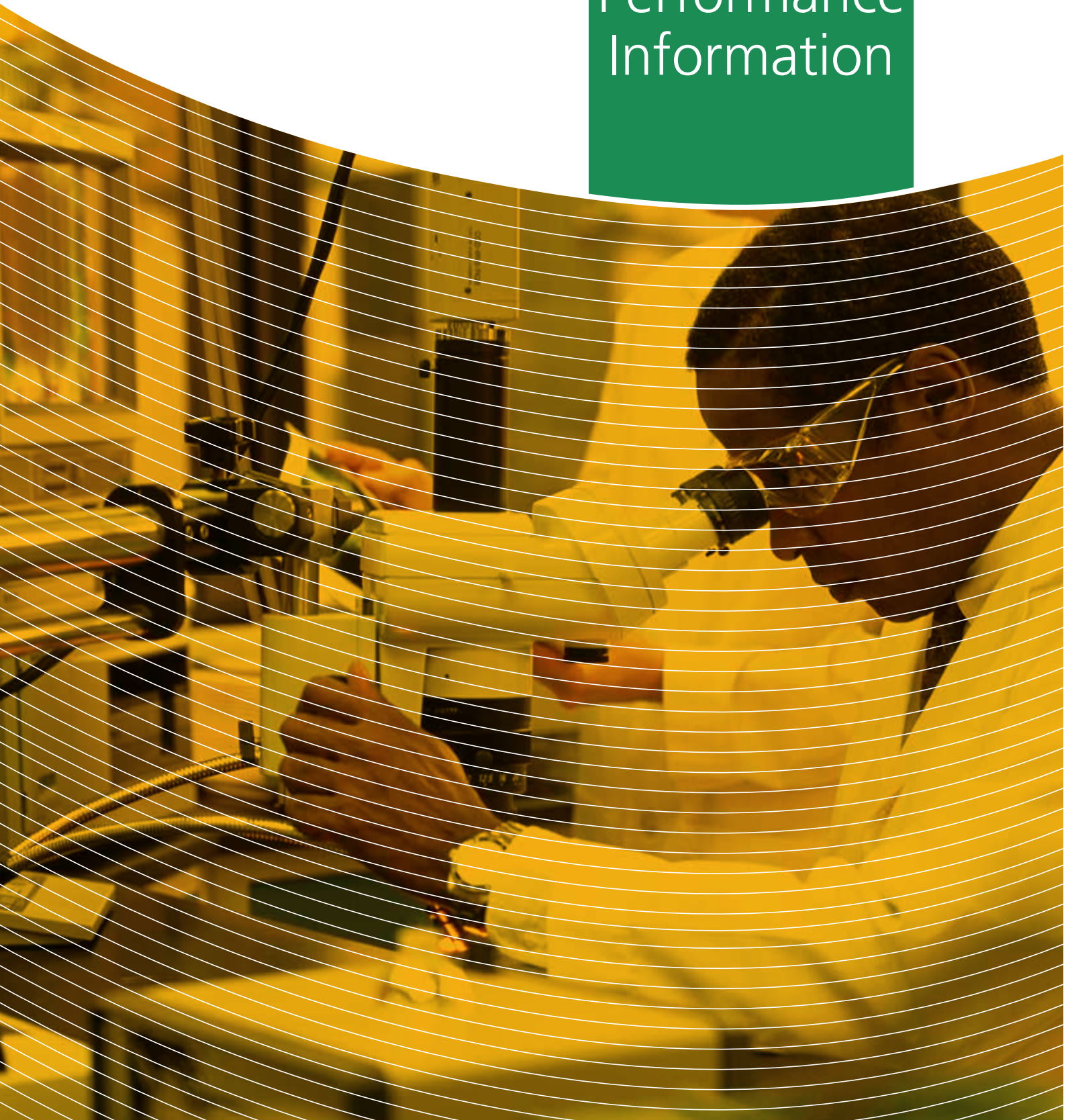
- Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;
- Create a fair regulatory environment that enables investment, trade and enterprise development, in an equitable and socially responsible manner and
- Build mutually beneficial 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

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The AGSA currently performs audits 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 Report on other Legal and Regulatory Requirements section of the AGSA's Report.

Refer to page 78 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 VCs and TRs

Table 1: Expected outcome – build a regulatory system responsive to market needs

Measurable objective/output	Performance indicator/measure	Audited performance 2015/16	2016/17 target	Actual performance 2016/17	% variance	Reason for variance
Develop a set of VCs/TRs that are responsive to market needs	Number of new, amended or withdrawn VCs/ Tech Regulations submitted to <b>the dti</b> for approval	8 compulsory specifications/ technical regulations submitted to <b>the dti</b> for approval/ 1 <sup>st</sup> gazetting	10 compulsory specifications/ technical regulations	5 compulsory specifications/ technical regulations	-50%	Inadequate capacity within the Regulatory Research and Development business unit.  The business unit is operating at 30% of the required capacity.
Ensure the uniform understanding and implementation of the NBR&BS Act nationally	Administer Review Board: % of Review Board decisions finalised within 30 calendar days from the date of the Review Board hearing/s.	100% Review Board decisions finalised within 30 calendar days	100% of all Review Board decisions finalised and communicated within 30 calendar days from the date of the Review Board hearing/s.	80% (four out of five cases) of Review Board decisions finalised and communicated within 30 calendar days from the date of the Review Board hearing/s	-20%	There were delays in finalising the case due to the December holiday interruption, and the onsite visit that was necessary to further investigate the case. Closure letters were sent out to all parties on 08 March 2017.



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

Table 2: Expected outcome – increased compliance with VCs and TRs

Measurable objective/output	Performance indicator/measure	Audited performance 2015/16	2016/17 target	Actual performance 2016/17	% variance	Reason for variance
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence	Number of Inspections conducted within Automotive, Chemicals Mechanicals and Materials(CMM), Electro-technical and Legal Metrology business units	19 940	18 900	20 261	+7.2%	More retail inspections were conducted due to the need to respond to non-compliant products in the marketplace.  Inspectors were not fully utilised for approvals in Electro-technical as envisaged.
	Percentage of inspections conducted on locally produced, imported and exported canned fishery and meat product consignments in accordance with the compulsory specification and procedures	28 484	100% of inspections conducted on all declared produced canned fishery and meat products	Inspected 100% of all declared consignments and productions of canned fishery and meat products. Total inspections conducted 26 384	No variance	N/A
	Number of inspections conducted on locally produced frozen products and fishery and canned meat processing factories and vessels in accordance with the compulsory specification and procedures	2 064	2 135 inspections	1 989	-6,8%	Land based facilities are inspected by the NRCS on request by the industry. The number of requests received in this year were lower than expected.

## Strategic Goal 2: (Continued)

Measurable objective/output	Performance indicator/measure	Audited performance 2015/16	2016/17 target	Actual performance 2016/17	% variance	Reason for variance
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence (continued)	Percentage of approval applications processed within the set timeframes	-	90% of all approval applications processed within 120 calendar days	53.5% (9 352 out of 17 484) of all approval applications processed within 120 calendar days	-36.5%	1) Backlog within the Electro-technical domain 2) Inadequate capacity 3) Applications submitted without all required documents or unacceptable test reports 4) Delays in implementing dormant VCs within CMM.
	Number of self-compliant companies	-	8	0	-100%	The framework of agreements was not completed prior to target being set. Pilot project is underway and the legal uncertainties are being resolved.
	Percentage of regulated products requiring and issued approval certificates	-	75%	72% (36 out of 50 VCs require LoAs)	-3%	One, Electro-technical VC and two, CMM VCs amended, however, still at gazetting/comments stage. The three VCs account for 6% of the total.
	Percentage of cases referred for prosecution in relation to prosecution for repeat offenders	-	15%	Under 1%	-99%	No clearly defined processes and inadequate investigation capacity within NRCS.

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

Table 3: Expected outcome – informed stakeholders on NRCS functions

Measurable objective/output	Performance indicator/measure	Audited performance 2015/16	2016/17 target	Actual performance 2016/17	% variance	Reason for variance
Public awareness platforms and events	Number of stakeholder consumer education events or campaigns	10	12 NRCS consumer education events or campaigns	12 consumer awareness campaigns were conducted	None	

### Strategic Goal 4: Ensure an optimally capacitated institution

Table 4: Expected outcome – Economical, efficient and effective accomplishment of NRCS mandate and sound corporate governance

Measurable objective/output	Performance indicator/measure	Audited performance 2015/16	2016/17 target	Actual performance 2016/17	% variance	Reason for variance
A capacitated organisation with relevant systems to support business	Percentage (%) of vacancy rate	6.8%	6%	12% vacancy rate as at 31 March 2017	-100%	Resignations and retirements coupled with a moratorium on filling of vacancies as a measure to manage Human Resources costs  Creation of four new positions within Electro-technical that were filled in April 2017. This accounts for 1.2% of the positions
Build IT platform and systems that support and improve business	Developed, approved and implemented ICT Master System Plan (MSP)	-	Develop and approve ICT MSP	Draft MSP developed however not finalised	Not achieved	MSP was referred back to take into consideration the need to modernise the NRCS

### Linking performance with budgets

Table 5: Budget objectives vs. performance

Objective	2016/17			2015/16		
	Budget	Actual expenditure	(Over)/under expenditure	Budget	Actual expenditure	(Over)/under expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Develop, maintain and administer VCs and TRs	15 184	6 341	8 843	14 799	7 884	6 915
Maximise compliance with all specifications and TRs	231 339	209 606	21 733	212 940	198 450	14 490
Inform and educate our stakeholders about the NRCS	9 392	5 261	4 131	8 033	9 099	(1 066)
Ensure an optimally capacitated institution	69 000	60 818	8 182	54 902	56 132	(1 230)
Administration	49 532	44 335	5 197	65 714	36 746	28 968
<b>Total</b>	<b>374 447</b>	<b>326 361</b>	<b>48 086</b>	<b>356 388</b>	<b>308 311</b>	<b>48 077</b>

# Business units' performance

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## Automotive

### Overview

The Automotive Business Unit is responsible for the administration of VCs for motor vehicles and identified motor vehicle replacement components. Additional regulatory powers are granted to the NRCS by the 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 (**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 mandates effectively. Stakeholders include but are not limited to:

- South African Revenue Services (SARS) Customs Unit in providing effective import control at all ports of entry;
- South African Police Service (SAPS) where there is evidence/suspicion of illegal vehicles in the market or where illegal conversion of motor vehicles or use of MIB status takes place;
- United Nations Economic Commission for Europe, in the harmonisation of compulsory standards with international standards as required in terms of the World Trade Organization (WTO) Technical Barriers to Trade Agreement and
- Southern African Development Community (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 an infrastructure to implement and administer technical regulations.

The unit had a total staff complement of 44 employees at the end of the reporting period. The positions of General Manager and Candidate Inspector are still vacant.

## 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 VC or TR.

The unit homologates vehicles, as well as certain vehicle components, include:

- Agricultural tractors;
- Buses;
- Child restraints;
- Heavy commercial vehicles;
- Hydraulic brake and clutch fluid;
- Light commercial vehicles;
- Headlights, secondary lights and replacement lamps;
- Motorcycles, motor tricycles and quadricycle;
- Passenger vehicles;
- Replacement brake friction material;
- Replacement safety glass;
- Safety helmets for motorcyclists;
- Towing devices (tow bars);
- Tyres and
- Trailers.

During the period under review, the Automotive Business Unit received 5 252 approval applications and 1 389 applications which carried over from the previous year. Of these, 3 768 applications were processed and 1 641 were carried over to the next financial year. 94.6% of the processed applications (3 567 out of 3 768) were within the target of 120 calendar days.

### **Inspections**

As the inspectorate of MIBs of motor vehicles, automotive inspectors conduct inspections at the physical location of the MIBs and 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 manufacturer or premises of a builder. Group inspections are also a strategy that has been implemented. This has assisted in ensuring that more impact is made by the unit to the industry.

During the financial year, the business unit conducted 4 063 inspections, including 3 074 source inspections, where source refers to the point of manufacture or port of entry and 989 retail inspections. The group inspections have ensured that the unit yields a positive variance.

### **Sanctions**

The NRCS continued in its stride to eradicate non-compliant products from the South African market. A total of 63 directives were issued to clients for non-compliant products, which is a considerable decrease from the last financial year wherein 143 were issued. The decrease in the number of directives is attributed to the increased awareness of the industry of the NRCS process. The identified non-compliant products included among others, lights, brake material, motorcycle helmets and safety glass.

### **Quality management**

The Automotive Business Unit had another successful South African National Accreditation System (SANAS) audit during this financial year. The unit managed to resolve findings that were raised from the previous financial year. Even though there were findings raised, these findings did not affect the status of the Automotive Business Unit accreditation.



## 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 and
- Various SABS Standards Technical Committees.

## Highlights

The Minister of Trade and Industry responded to the complaint lodged by South African Tyre Manufacturers Conference on the matter of payment of levies on export units. The decision was in favour of the Regulator as the Minister indicated that the industry is obliged to pay the relevant fees.

The increased border activities on new tyres highlighted the fact that even those companies that raised concern over the NRCS processes were found not to be 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 relations management (CRM) tyre homologation project has been launched in an attempt to resolve the current volumes of applications received on a daily basis.

A revised fee applicable to all vehicle Letters of Authority (LoAs) applications was implemented which will have a positive impact on the automotive revenue.

The criteria for approval of a component LoA certificate has been improved to contribute to the Industrial Policy Action Plan (IPAP) objective of locking out non-compliant products from the market.

An initiative to review the internal business procedures has been successfully undertaken. The review of the inspections and approvals procedures was completed and implementation will commence at the beginning of the new financial year.

A tyre approval process training intervention was undertaken in respect of three tyre manufacturing companies in an effort to support local industry in line with IPAP objectives.

Group inspections continue to have a positive impact in terms of identifying non-compliances in the market. In addition, it provides an opportunity for inspectors to be cross-trained/multi-skilled.

Ad-hoc technical meetings are continuously taking place which form part of cross training and skills transfer within the approvals LoA section among all staff members. In addition, the evaluators involved with vehicle LoA approval process have been allocated inspectors as mentors as part of training to improve their technical skills.

## Challenges

There are certain 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. The results of this collaboration will be more visible as soon as the Technical Specialist starts in the Regulatory Research and Development (RR&D) Unit.

There is still an issue with the shortage of testing facilities in the country. The NRCS is working closely with industry associations and the South African Bureau of Standards to resolve these challenges.

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

## Chemicals Materials and Mechanicals

### Overview

The CMM Business Unit currently regulates 15 compulsory specifications covering vast product categories in the chemical, mechanical and material industries. In the administration and maintenance of compulsory specifications, the CMM Business Unit conducts pre-approvals, market surveillance inspections, sampling of regulated products and sanctioning of non-compliant products.

The CMM Business Unit also performs a regulatory function on behalf of the following government departments:

- The Department of Health (DoH) on the regulation of microbiological safety cabinets, disinfectants and detergent disinfectants;
- The Department of Labour and the Department of Mineral Resources on the regulation of various types of personal protective equipment, such as respirators and breathing apparatus;
- The Department of Energy on the regulation of paraffin stoves and heaters;
- The South African Police Service on the regulation of shooting ranges and firearms and
- The Department of Environmental Affairs on the regulation of plastic bags and plastic carrier bags.



The CMM business unit is responsible for the administration of compulsory specifications that cover the following industry sectors:

- Personal protective equipment (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) and
- Products that affect the environment (plastic carrier bags, etc.).

### Overall performance

#### Market surveillance

The CMM Business Unit exceeded its annual performance target. CMM performed 5 593 surveillance inspections against an annual target of 5 499 for the 2016/17 financial year. This represents a 1.7% over-achievement, which is significant as this financial year was fraught with considerable challenges. Consistent with the mandate of the NRCS, the CMM Business Unit finalised and implemented dormant compulsory specifications. A phase-in approach for implementing these compulsory specifications was implemented to remain on course in reaching the quarterly and annual performance targets. In a bid to upskill employees and effectively utilise existing resources within the business unit, surveillance inspectors continued to receive diverse training in compulsory specifications.

The NRCS collaborated with other governmental agencies and organs of state to the benefit of all South Africans. **the dti** extended the NRCS' winter campaign to include the National Disaster Management of the

Department of Cooperate Governance and Traditional Affairs (COGTA) and the NCC nationwide. The objective of the campaign was to educate various communities on the correct usage and identification of compliant paraffin stoves and heaters, as well as eradicating non-compliant stoves from vulnerable households. This project culminated in the exchange of non-compliant paraffin stoves for a compliant and safer paraffin stove. The campaign was successfully rolled out to various low-income household and rural communities across different provinces in South Africa. The involvement of community leaders and volunteers proved beneficial during the door-to-door awareness activities.

Table 6: CMM 2016/17 inspections

	Total inspections	Shooting range	Source	Retail	Border		Out of scope
					Total	In scope	
<b>YTD Total</b>	5 678	755	607	3 746	570	94	475

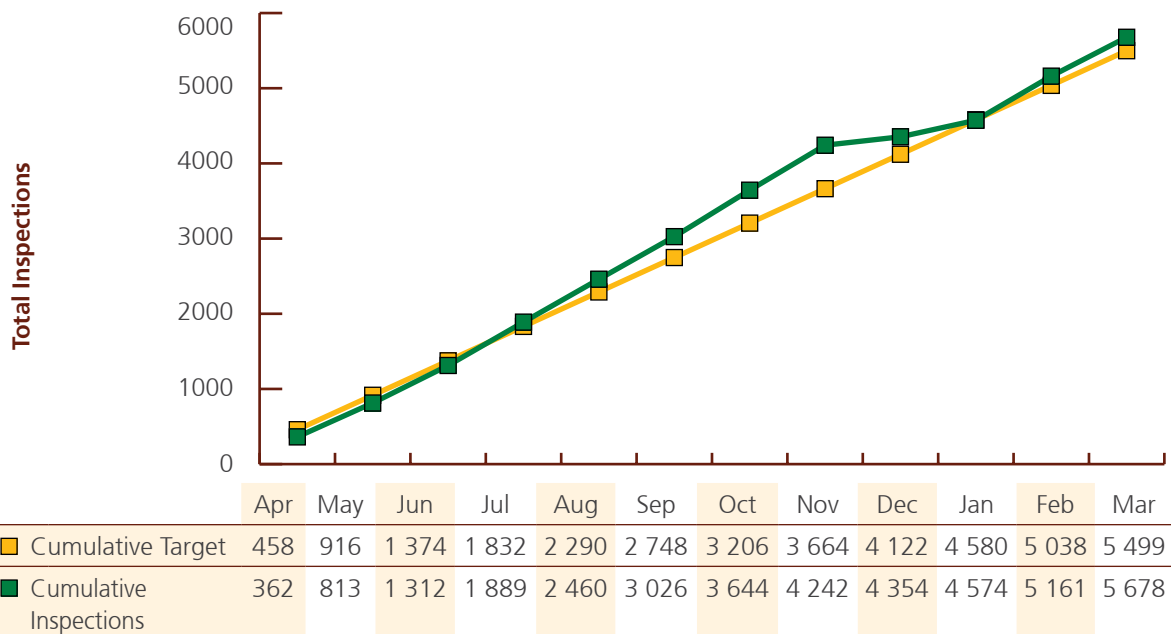


Figure 1: Annual performance 2016/17

### Approvals

The CMM Business Unit evaluated and issued pre-market approvals for compliant products. These pre-market approvals are issued after evaluating submitted evidence of compliance against the relevant compulsory specifications. During the year under review, the CMM achieved 31% of its set target of processing pre-market approvals within the 120 calendar days. A total of 309 approval certificates were issued to various compliant commodities that are regulated by the business unit. A total of 85 out of 533 applications were rejected or cancelled during the period under review. Almost all cancellations were due to applicants withdrawing from trading in certain commodities. Rejections were due to failure by applicants to meet deadlines for submitting corrections for identified findings. Examples of these identified corrections are incomplete or partial test reports submitted by the applicant to the NRCS.

### Sanctions

During the 2016/17 financial year, 129 CEO directives were issued to manufacturers, importers and retailers that supplied or sold non-compliant goods which failed to comply with the health and safety requirements as

detailed in the respective compulsory specification. This includes, but not limited to, failure to meet marking and performance requirements as stipulated in the relevant compulsory specification. The performance results were obtained from samples drawn from the market and sent for testing at an International Laboratory Accreditation Cooperation (ILAC) accredited laboratory. Subsequent to inadequate corrective actions being received, 64 of the CEO directives resulted in the destruction of these non-compliant commodities.

Non-compliant products destroyed included swimming aids, plastic carrier bags and paraffin stoves in KwaZulu-Natal and the Western Cape. Further products confiscated across South Africa include safety footwear, disinfectants and detergent disinfectants.

Table 7: Category and value of non-compliant goods

	Approximate quantity	Approximate value
<b>Chemicals</b>	37 400 liters	R77 300
<b>Flame producing devices</b>	5 416	R645 500
<b>Plastic carrier bags</b>	1 461 700	R336 600
<b>PPE</b>	37 900	R7 533 500
<b>Swimming aids</b>	460	R7 560
<b>Treated timber</b>	2 000	R54 606

### Stakeholder engagement

As part of the NRCS stakeholder engagement strategy, the CMM Business Unit held four industry meetings. These meetings were aimed at addressing industry concerns and also provided a platform to inform the different stakeholders of changes in the compulsory specifications.

Table 8: Industry meetings during the 2016/17 year

Date	Name of stakeholder	Nature of engagement/issues discussed
<b>25 Nov 16</b>	Safety Glazing Industry Meeting	Requirements to the approval of safety glazing material.
<b>04 Nov 16</b>	Meeting with the Association of Architectural Aluminium Manufacturers of South Africa	Regulation of safety glass and safety glazing.
<b>08 June 16</b>	Stakeholders' consultation meeting – VC 8054	The revised draft Compulsory Specification for Disinfectants and Detergent Disinfectants.
<b>07 June 16</b>	Stakeholder consultation meeting – the proposed development of a compulsory specification for school and office furniture	To consider the proposal to develop and enforce a compulsory specification (technical regulation) for school and office furniture.

Other stakeholders, which formed part of various campaigns, were:

- SAPS Border Control;
- SARS;
- West Coast Chinese community;
- North West Provincial Government;
- City of Cape Town;
- Madibeng Municipality;
- Ethekewini Municipality;
- Various brand holders;
- Community leaders and community volunteers;



- Border Control Operational Coordinating Committee (BCOCC) and
- National Disaster Management.

### Highlights

In line with NRCS' commitment to expedite the implementation of the dormant compulsory specifications, training and numerous joint inspections across South Africa were conducted which resulted in successful operations.

### Treated timber

CMM inspectors embarked on group inspections in Limpopo, and the Western and Southern Cape regions, concentrating on timber treatment plants. About 62 inspections were conducted and as a result four plants were issued with CEO directives for the illegal treatment of timber.

### Safety footwear

A number of joint inspections were conducted in KwaZulu-Natal, the Eastern and Western Cape and Gauteng. The aim was to identify unregistered importers and manufactures of safety shoes as well as verification of levies. In addition, the inspectors utilised this opportunity to raise awareness of the regulations and requirements as set out in the compulsory specification for safety footwear (VC 9002). The bulk of the shoe styles found during the inspections were indicative of the commitment by the industry to comply with the requirements of the compulsory specification. However, non-compliances were identified and a significant number of applications were submitted for pre-market approval.

### Plastic carrier and flat bags/chemicals

Group inspections were conducted in Malelane, Komatipoort and Bushbuckridge with the aim of addressing non-compliant products and ensuring that the NRCS coverage extends across South Africa. Some highlights include the confiscation of 161 050 plastic carrier bags and 1 565 litres of disinfectants.

### Joint inspections

Eastern Cape group inspections were conducted by the NRCS (CMM Unit) together with SARS (Excise division) between 11 and 15 July 2016. This was due to customer concerns addressing the influx of illegal plastic carrier bags in the Eastern Cape. Furthermore, inspections on non-declaration of levies were conducted by SARS. This resulted in the confiscation of 181 700 plastic carrier bags and 370 paraffin stoves and heaters with a rand value of approximately R93 515.

In line with **the dti's** initiative of creating awareness and eliminating unsafe paraffin stoves and heaters from South African households, the NRCS, together with the National Disaster Management, NCC, as well as various municipalities, embarked on a Safer Paraffin Campaign. Areas that were identified included:

- Kimberley – Northern Cape;
- Masiphumelele – Western Cape;
- Pinetown – KwaZulu-Natal;
- Rustenburg – North West and
- Brits – North West.

## Training

### Personal protective equipment symposium

Some of the staff from the unit attended a Personal Protective Equipment (PPE) symposium, it was aimed at addressing PPE in all sectors in South Africa and Africa and the programme discussed, among others, PPE in mining, oil and gas, manufacturing, construction, medical, forestry and multi-risk industries.

### Type II safety footwear

Surveillance and approvals inspectors attended a training session on the manufacturing of safety shoes. The inspectors were exposed to the manufacturing of Type II safety shoes through the entire process; from acceptance of the raw material until packaging of the final product. The training also covered various engineering and mechanical skills in producing safety shoes as well as the parts used to construct the finished product.

### Safety glazing

Inspectors attended a training session on the approval procedure for the Compulsory Specification of Safety Glazing. The training covered technical requirements, procedural aspects when manufacturing, and applying for an LoA.

### Quality systems

As part of the CMM Business Unit's commitment to continuously develop staff, inspectors attended training on ISO 17025 and 18001 at the SABS.

## Challenges

The number of compulsory specifications continues to increase annually, while the human resources capacity of the CMM Unit remains limited. This has a negative impact on the effectiveness and ability of the CMM Business Unit to fulfill and support the mandate of the NRCS. In line with the unit's standard operating procedures, inspectors are required to confirm compliance by means of sampling and testing of products; however the testing facilities in South Africa are not able to meet the required turnaround times which negatively affect the respective industries. Furthermore, it also affects the NRCS sanctioning process wherein sanctions cannot effectively be handed down within the allotted period.

In an effort to be a good corporate citizen, the NRCS requires that products be destroyed in line with municipal by-laws and in an environmentally friendly manner. Several importers and suppliers of regulated goods fail to meet minimum safety requirements. This adds considerable pressure on inspectors who have to ensure they cover all possible entry points to ensure that non-compliant products do not reach the South African consumers.

## Conclusion

In the midst of these challenges, the CMM Business Unit continues to be committed to protecting South African consumers and removing non-compliant goods from the market.

This is supported by the fact that the business unit exceeded its annual performance target which can be attributed to skilled and efficient staff, who are committed to the cause and the mandate of the NRCS. Cross-functional awareness between agencies occurs when inspectors team up with other agencies during joint operations. Non-compliant products remain a challenge as some still find their way onto the market. It is therefore imperative that the NRCS finds innovative ways to combat the influx of non-compliant goods.

## Electro-technical

### Overview

The Electro-technical Business Unit regulates 18 compulsory specifications (VCs) covering approximately 542 product categories in the electrical and electronic technologies. The regulatory scope includes household appliances, power tools, ICT equipment, audio visual equipment, lighting, and electrical components such as plugs, adaptors and switches. In addition, the unit regulates aspects regarding the approval of components of fixed electrical installations on behalf of other government departments, including the Department of Labour; and aspects concerning the electro-magnetic compatibility and interference of certain electrical and electronic apparatus on behalf of the Independent Communications Authority of South Africa (ICASA).



The regulated electro-technical products are largely imported, in a market that is characterised by low barriers to entry. The high number of market entrants and exitees presents a challenge for the NRCS in conducting its regulatory supervision and market surveillance activities. Enforcement is carried out at two stages: pre-market, before the products enter the market, and post-market after the products enter the market. A risk-based approach has been piloted in both pre-market approvals and post-market surveillance. Market surveillance is conducted at the retailers, in addition to the source of products, i.e. ports of entry, importers premises, and manufacturers.

### Overall performance

#### Inspections

The business unit exceeded the inspections target by conducting a total of 4 620 market surveillance inspections against a planned target of 4 000, representing a positive variance of 15.5%. A total of 4 094 (88.6%) inspections conducted were within the scope of electro-technical regulated products.

The inspections performance statistics were distributed according to the regions as shown in Table 9.

Table 9: Electro-technical inspections performance statistics

Region	GP	KZN	EC	WC	Total
<b>Inspections</b>	2 236	802	678	904	4 620
<b>Directives issued</b>	23	18	63	184	288
<b>Rand value (Millions) of non-compliant products found</b>	R2.7	R12.8	R2.6	R0.32	R18.4

A total of 288 Section 15.1 directives (NRCS Act) were served, resulting in non-compliant products worth approximately R18.4 million being removed from the market during the year under review. The non-compliant products included adaptors, incandescent lamps, water pumps, dish washers, and luminaires. The majority of non-compliant products were found at the ports of entry, with the KZN Region accounting for approximately 70% of the rand value.

### Approvals

Table 10 below shows the Electro-technical approval statistics for the year under review. There was a marked improvement in the total number of approvals granted, increasing by approximately 43% compared to the previous financial year, with 12 122 approvals in 2016/17 compared to 8 458 in 2015/16. The increased throughput was mainly due to interventions that included overtime and the temporary additional capacity from market surveillance inspectors who dedicated a percentage of the available time to approvals. The unit approved, 4 451 (37%) of the applications within the planned target of 120 calendar days. The interventions were introduced when a backlog accumulated and a number of applications were already above the 120 calendar-day target.

The volume of applications received in the 2016/17 financial period was 12 702, an increase of approximately 10% compared to 11 578 in the previous year. This is attributed to among other things, the implementation of energy efficiency regulation on domestic appliances and air conditioners. The workload for the period under review was 16 989 (including 4 287 applications carried over from the previous period), compared to the workload of 15 155 in the previous period. A total of 1 911 applications were closed for various reasons including non-compliance and duplication of applications.

Table 10: Approval statistics

Description	Applications carried over from previous period	Received applications	Approved applications	Closed applications	Carried over to next period
LoA	4 225	12 524	12 038	1 809	2 907
RCC/AC	62	177	84	102	53
<b>TOTAL</b>	4 287	12 701	12 122	1 911	2 955

The graph in Figure 2 below shows the volume of applications received versus the approvals granted compared to the previous financial period. The graph shows that the NRCS increased throughput to match the increase in applications, resulting in a decrease in the number of applications carried over to the next financial year. A total of 2 955 applications were carried over to 2017/18 compared to 4 287 in the previous period.

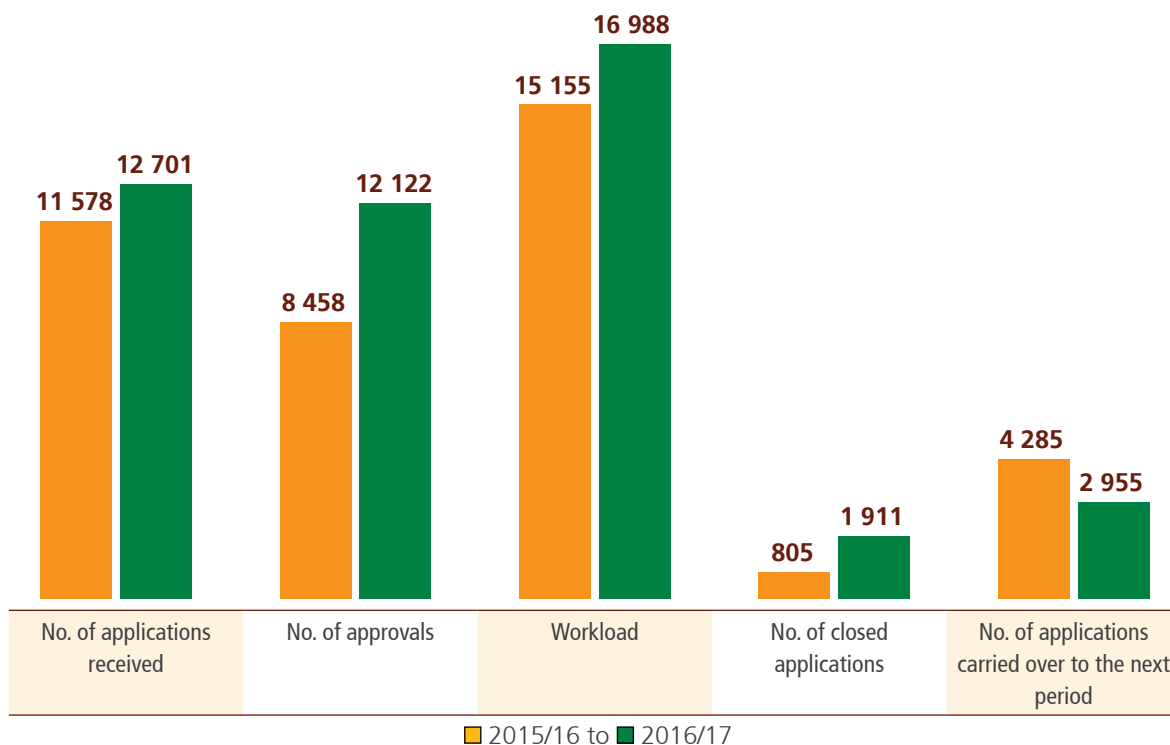


Figure 2: Electro-technical approvals

### Stakeholder engagements

The business unit, in line with IPAP, participated in various local, regional and international engagements, to foster closer collaboration with stakeholders, through multi-sectoral forums. Within the region, business unit representatives participated in the Southern African Development Community (SADC) Technical Barriers to Trade Expert Group Meeting in Swaziland in February 2017. Engagements and collaboration with other government agencies and departments continued. Some of the main collaborative projects included:

- Department of Environmental Affairs – as part of the key stakeholder reference group on preparations for South Africa to ratify the Minamata Convention on Mercury. The Minamata Convention seeks to limit and in some cases prohibit the use of mercury in processes and products. The unit’s interest is on limiting mercury in electrical and electronic products such as compact fluorescent lamps and switchgear.
- Department of Energy – as part of the project steering committee on the implementation of the new compulsory specifications on energy efficiency, VC 9008, including organising and coordinating the launch of the South African energy efficiency label conducted by the Minister of Energy in May 2016, and participating in awareness campaign design and planning.
- SARS/**the dti** – project of Harmonised System Codes, which will culminate in the NRCS aligning the regulated products to SARS tariff codes, enabling the use of the SARS Risk Engine.
- In addition, the unit had engagements with industry associations and individual organisations on compliance matters.

### Highlights

#### Joint operations with other government agencies

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

- Participation in joint operations led by BCOCC at the ports of Coega and Port Elizabeth.
- Participation in multilateral raids in Cape Town, Kimberly, and Graaff Reinet. The raids were led by the

SAPS and included the following stakeholders: DoH, NPA, Film and Copyright Board, Metro Police, and brand holders.

- Participation in the national paraffin stove campaign in Masiphumelele informal settlement in Cape Town. Government departments in attendance included **the dti**, Department of Cooperative Governance and Traditional Affairs (COGTA), City of Cape Town and NCC.

### Maintenance of SANAS accreditation

The business unit was audited by SANAS during the third quarter; successfully maintaining its accreditation and extended the regulatory scope to include VC 9008, Energy Efficiency. The units' inspectors were accredited and declared competent to enforce the new compulsory specification.

### Challenges

The LoA backlog continued to be a challenge, resulting in the Portfolio Committee on Trade and Industry intervening. The number of inspectors in approvals increased from five to seven during the period under review however, capacity levels remained insufficient to deal with the increasing volume of applications. Although six new candidate inspectors were recruited to assume duties on 1 April 2017. They will only become fully functional around October 2017, since they need to undergo accelerated training for at least six months.

The business unit experienced challenges in implementing the new compulsory specification for energy efficiency due to delays in the training of inspectors and lack of readiness of the test facilities, resulting in a bottleneck of energy efficiency LoAs.

The risk-based approach was not fully deployed during the financial year because the available resources were diverted to the LoA backlog, leading to the suspension of other projects. Consequently, the methodology had not been finalised as anticipated.

### Conclusion

The Electro-technical Business Unit exceeded its inspections target, conducting 4 620 inspections against a planned target of 4 000. A total of 288 directives were served, yielding approximately R18.4 million worth of non-compliant products.

Although the approvals throughput increased by 43% compared to the previous period, only 37% of the approvals were issued within the target of 120 calendar days. The unit implemented interventions that included overtime and requiring market surveillance inspectors to dedicate a percentage of their time to approvals. However, there remained an imbalance between the workload in approvals and the available capacity to conduct the evaluations.

The unit continued to engage multi-sectoral forums and individual stakeholders, including government agencies and departments such as SARS, NCC and DOE, the industry, and regional forums in SADC. In addition, SANAS accreditation was not only maintained but the scope was increased to cover the new compulsory specification on energy efficiency.

## Foods and Associated Industries

### Overview

The Food and Associated Industries (FAI) Business Unit protects consumers by regulating canned meat and canned fish products, frozen fish products, smoked snoek, aqua cultured live abalone and live oysters which are traded nationally and internationally.

This is achieved by:

- Inspecting processing plants and fishing vessels used to produce, process or transport food products.
- Taking samples of food products from registered facilities and submitting these food samples for testing at accredited testing laboratories.
- 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 in order 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 port of entry. Imported fishery products are taken to various cold stores and warehouses where products are sampled for inspection at NRCS laboratories.
- Issuing health guarantees for fish and fishery products that are destined for export. The NRCS is the Competent Authority for the issuing of health guarantees to various countries and trade groupings.
- Cooperating 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 standards setting processes through *Codex Alimentarius*. At national level, the NRCS works in close cooperation with several other legislators in the food environment, including the Department of Health (DoH) and Department of Agriculture, Forestry and Fisheries (DAFF). The NRCS has entered into various technical cooperation 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.



### Overall performance

There were six product categories in the 2016/17 annual business plan. The business unit achieved its targets in four product categories. For the year under review, 28 373 inspections were conducted. The business unit conducted 146 inspections less than the set target for locally produced frozen fish products, and fisheries and canned meat facilities. The unit's overall performance for the 2016/17 financial year remained relatively steady when compared to the average over the past six 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 regulated food commodities, and therefore the NRCS inspects 100% of all high-risk products, such as canned and imported products from countries where there is no official inspection agreement. At the same time low-risk products are monitored with a predetermined surveillance inspection programme.



All inspections and operations of the unit are conducted according to the policies and procedures of the quality management system implemented by the business unit based on ISO/IEC 17020. Internal audits were conducted to measure the unit's performance in terms of its documented quality management system. Furthermore, an external audit was conducted and the unit successfully maintained its SANAS accreditation.

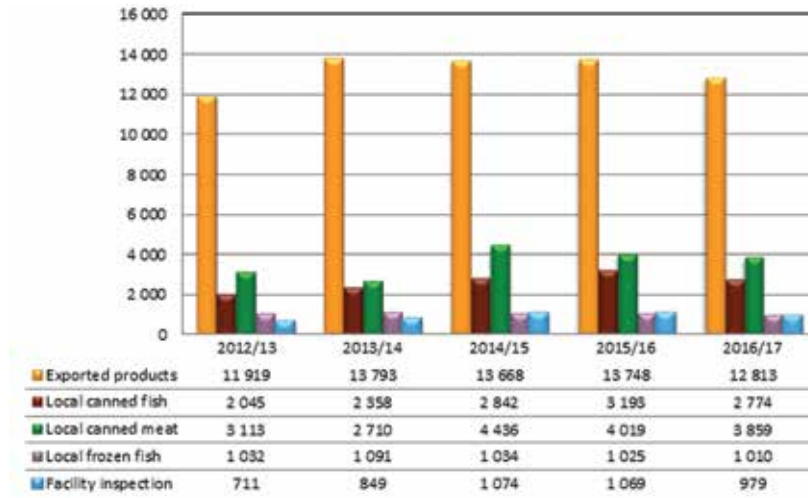


Figure 3: Inspection trends

### Inspections

The business unit conducted 28 373 inspections on export, local and imported fishery and canned meat consignments and productions. In comparison to last year, the number of inspections conducted on all product categories decreased.

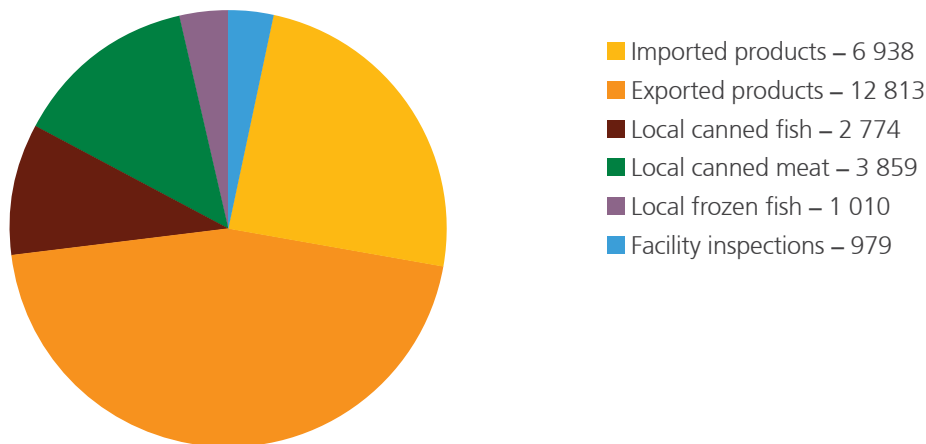


Figure 4: Inspections conducted 2016/17

### Health guarantees and compliance certificates

The NRCS is the Competent Authority for fish and fishery products in South Africa, and is acknowledged as such by the EU 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, live lobster, abalone and oysters. The unit conducted 12 813 inspections on product consignments exported to various countries, which, in comparison to last year indicate a slight increase in inspections.

For all fish and fishery products imported into the country, the business unit issued compliance certificates where the products met the minimum requirements in terms of the requirements of the compulsory specifications before products are released to the market place.

### Non-compliances and directives

Non-compliance certificates were issued for products that did not comply with the requirements of the relevant compulsory specifications or the 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 productions or consignments that were found to be of substandard quality or which did not fully comply with certain non-food safety related quality requirements. Sales permits, which stipulate prescribed sales conditions, were issued for these products.

The business unit issued 64 non-compliance certificates for products found to be substandard in terms of quality, and 168 for products that were found to be not for sale or fit for human consumption. In addition, FAI issued 166 directives for products that were not safe or fit for human consumption. The non-compliant products were either re-labelled, destroyed by industry at their own cost (under the supervision of NRCS), or returned to the country of origin. The products not fit for human consumption had an estimated value of R96 million.

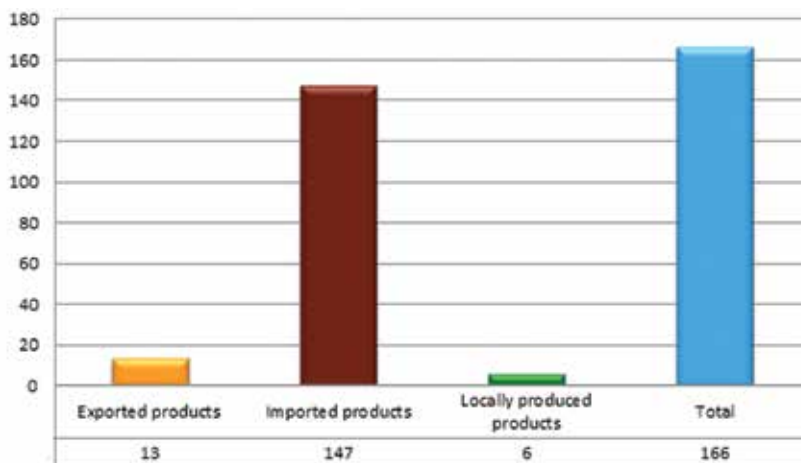


Figure 5: FAI directives issued 2016/17

### National and international liaison

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 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 activities, including:

- The CAC meeting from 4–8 July 2016 in Rome, Italy. The NRCS was once again invited to be part of the South African delegation at the 39<sup>th</sup> Session of the Codex Alimentarius Commission by the Directorate: Food Control of the National Department of Health, as the NRCS is the Competent Authority for frozen and canned fish and fishery products, as well as canned meat. The CAC is the international food safety standard setting body referenced in the WTO/SPS Agreement and harmonisation with standards developed and adopted, ensures safe, fair and structured trade of various food products in the global context. The NRCS was the only delegate

that represented South Africa at the CAC along with the two agricultural attachés based in Brussels and Rome. The relevance of attendance relates to the strengthening of the national food control system of South Africa. It further relates to the implementation of other important activities of the food safety sector, best defined as the 'non-negotiables', which include, ensuring compliance with all legal and statutory obligations as stipulated in the Foodstuffs, Cosmetics and Disinfectants Act, Act No.54 of 1972 and the relevant compulsory specifications administered by FAI. The South African delegation participated actively with its inputs. Apart from contributing to the proceedings, the delegates were updated on global food regulatory matters and were able to give guidance on such matters in South Africa. Cognisance was also taken of the economic, trade and political interests that are always at stake and that should always be borne in mind when conducting our own activities, especially as an international role player in food control. Most of the documents that were presented by South Africa were endorsed by the commission.

- The Codex Alimentarius Committee meeting for the Coordination of Africa was attended from 16–20 January 2017. During this meeting, the NRCS, on behalf of South Africa, participated in discussions pertaining to food safety and quality, and the use of Codex Standards in South Africa. Discussions were also held on the small and medium enterprises (SMEs) and food trade opportunities for building regional markets through the use of Codex Standards. The standards were summarised to raise the profile of Codex with SMEs and promote the establishment of partnerships with SMEs.
- The Namibian Standards Institution (NSI) and the NRCS had a joint management meeting in Cape Town on 20 July 2016. The purpose of the meeting was to discuss various issues regarding cooperation, product certification, import control of fishery products into Namibia and training support for NSI. Both organisations made presentations at the meeting to provide an overview of their activities.
- The business unit participated in a Trade Control and Expert System (TRACES) training workshop in Namibia from 31 October to 4 November 2016 with the NSI represented by the EU.

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

Locally, the unit participated in 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 DoH, where proposed food regulations and the processes leading to the implementation of these regulations in the interest of protecting consumers were discussed;
- Aquaculture Advisory Group Committee meeting, hosted by DAFF in Cape Town;
- Sanitary and Phytosanitary Technical Barriers to Trade Committee meetings, hosted by the Department of Agriculture;
- Inter-governmental Aquaculture Forums and
- Inter-departmental Food Safety Coordinating Committee (established to coordinate food safety issues between food regulatory authorities) meeting.

## Highlights

During the second quarter of 2016, the NRCS was confronted with and had to respond to food safety challenges that posed a risk to South African consumers and indirectly consumers in the global context; where various

pathogenic *Vibrio* species were detected in numerous imported consignments of fish and fishery products. Initially this non-conformance was only limited to one importing country, but a revised NRCS sampling and testing protocol established that this non-conformance is prevalent in various other importing countries. A total of 103 consignments with an estimated value of R63 million were returned to the country of origin.

One of the highlights in the year under review was the participation in the EU residue monitoring audit that took place during February 2017. The purpose was to evaluate the South African control systems in place governing the monitoring and control programmes relating to residues and drugs on aquacultured finfish. The business unit actively participated in the auditing of aquaculture abalone and participated in the preparatory discussions and meetings with the DAFF.

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 unit's processes is paramount. The business unit was audited by SANAS and was recommended for continued accreditation.

Of the 12 813 export inspections where health guarantees were issued by the NRCS to various countries, only three notifications in the rapid alert system for food and feed from South Africa were issued by the EU.

### 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 and exports or fluctuations in local production. During the period under review, the importation of canned fish decreased through the Durban port of entry while, the importation of frozen fish through Cape Town's port increased – 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 Food and Associated Industries Business Unit contributed successfully to the NRCS objective to protect consumers by effectively administering the relevant compulsory specifications, and enhanced the trade of good quality food products nationally and internationally. The business unit supported local industry by ensuring that only good quality, safe food products were exported. The period under review had the second highest volume of exports over a six year period and all export consignments were accepted in the international markets with no notifications. In its effort to drive the basic performance efficiencies, the unit constantly strives to keep abreast of new technological developments and benchmarks itself against other regulators, both nationally and internationally. Multi-skilling and ongoing training programmes are some 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

The Legal Metrology Unit ensures that consumers receive the declared quantity of goods as 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), Act No.9 of 2014 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 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 and
- 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 Regulator;
- 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 and
- Providing inputs on legal metrology matters to national, regional and international standards as required by SADC Cooperation in Legal Metrology (SADC MEL), Intra-Africa Metrology System (AFRIMETS) and the International Organization of Legal Metrology (OIML).

The Legal Metrology Business Unit is accredited through the 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 and
- SANS/ISO 17025 as a test laboratory for undertaking type evaluation tests.

### Service delivery

During the year under review, the unit received 213 new applications from instrument manufacturers and suppliers for type evaluation. It processed 171 of these applications and issued 78 certificates of approval for instruments that 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.

The unit received 1 076 new applications from the gaming and gambling industry for the evaluation of gaming hardware and software and 982 letters of certification (LoC) were issued to the gaming and gambling industry. Of the 982 LoCs that were issued, 501 were issued after the 30 day target period.

A total number of 6 126 market surveillance inspections were conducted, 874 (16.6 %) more than the inspection target of 5 252 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. Eighty two percent (82%) of the market surveillance inspections were carried out at source (manufacturers and importers) and 18% of the inspections were carried out at retail level.

During these market surveillance inspections, 21 633 samples of products were evaluated and the following non-compliances were uncovered:

Table 11: Sale of goods: types of contraventions

Sale of goods – type of contravention	Incidents of non-compliance	
	2016/17	2015/16
Short measure	2 552 – 11,8%	3 153 – 12,3%
Incorrect pack size	346 – 1,6%	444 – 3,4%
Unmarked goods	372 – 1,7%	859 – 1,7%
Other	85 – 0,4%	46 – 0,2%
<b>Total</b>	<b>3 355 – 15,5%</b>	<b>4 012 – 15,7%</b>

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

With regard to measuring instruments, a total number of 17 047 instruments were inspected and findings noted as per Table 12 below.

Table 12: Instruments: types of contraventions

<b>Instruments – type of contravention</b>	<b>Incidents of non-compliance</b>	
	<b>2016/17</b>	<b>2015/16</b>
<b>Verification status lapsed</b>	2 007 – 11,7%	1 876 – 14,1%
<b>Unapproved</b>	122 – 0,7%	302 – 2,3%
<b>Inaccuracy</b>	80 – 0,5%	138 – 1%
<b>Technical, marking and other non-compliances</b>	187 – 1,0%	145 – 1,1%
<b>Total</b>	2 381 – 13,9%	2 461 – 18,5%

The verification status of measuring instruments as well as the number of unapproved measuring instruments that found their way into the market continue to be the main contributors to incidents of non-compliance. The downward 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 goods found their way to the consumer and that non-compliant instruments were not used in transactions, the business unit market surveillance inspectors issued a total number of 3 355 embargoes for pre-packed goods and 2 396 rejections for measuring instruments. The unit's market surveillance inspectors also issued warnings to 1 178 businesses for supplying non-compliant pre-packed goods or instruments and instituted legal proceedings against 66 repeat offenders on 286 counts. The total monetary value of the products tested was R1 119 million, of these, R116 million were non-compliant. 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 9 444 mass verification standards, 716 volumetric verification standards and 357 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 120 designated verification laboratories are competent, verification officers have to pass the required theoretical and practical examinations. A total of 283 theoretical verification officer examination papers were written, of which 116 passed. Forty seven (47) candidate verification officers passed their practical evaluations on verifying measuring instruments.

The unit provided further support to SANAS, in the form of lead or technical assessors, to conduct assessments on verification laboratories. A total of 74 man days were utilised in the assessment of verification laboratories by assessors from Legal Metrology. The assessment of verification laboratories remains strategic to the National Regulator because it underpins confidence in the designation of the laboratories to operate under the LMA.



### **Inspectorate capacity**

To ensure the capacity of the unit, market surveillance inspectors received theoretical and practical training on various technical regulations as well as quality system 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 standards bodies in the field of legal metrology, engaging in the following activities.

The unit represented South Africa on 18 technical committees of the International Organization of Legal Metrology (OIML), responsible for drafting model regulations (recommendations) to be used in legal metrology. Several comments were provided to ensure that South African requirements are considered in the development of new harmonised international requirements.

The unit hosts the secretariat of the 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 inputs received from the International Committee of Legal Metrology (CIML) members on the statistical method contained in the recommendation OIML R 87 Quantity of Product in Pre-packages into a final draft international recommendation. The revision of the final draft recommendation for OIML R 87 were approved by the CIML and has been published under the auspices of this technical committee in January 2017. The secretariat is collating all inputs received from CIML members on a guidance document for defining the system requirements for a certification system for pre-packages currently being developed by OIML TC 6.

The Legal Metrology Business Unit, as the representative of South Africa, attended the CIML meeting (steering committee for the OIML) and OIML Conference in Strasbourg, France to review the OIML technical progress and administrative operations. During these meetings, the head of Legal Metrology also participated in the Regional Legal Metrology Organisation round table meeting to ensure the development of legal metrology in the region and on the African continent.

Legal Metrology Business Unit hosts the secretariat for the SADCMEEL. The secretariat was responsible for arranging the 31<sup>th</sup> SADCMEEL meeting in March 2017 in Manzini, Swaziland. The involvement of the business unit and the attendance of SADCMEEL meetings is considered valuable as it furthers 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 SADCMEEL were met.

Under the NRCS/Namibia Memorandum of Understanding, the unit embarked on a pilot project with the National Standards Institute of Namibia (NSI) aimed at developing an e-Mark scheme for Namibia. From 11 to 15 April 2016, in preparation of the NSI adopting similar requirements as those of SANS 1841 in their national legislation, South Africa presented practical training on the SANS 1841 standard dealing with the e-Mark in Cape Town. Ten staff members were trained during the theoretical phase; however, due to practical limitations only two NSI officials were trained practically. This was conducted on a train-the-trainer basis. This training formed part of the pilot phase of the project to establish a Mutual Acceptance Arrangement between South Africa and Namibia to recognise each other's e-Mark schemes. The scheme would enhance compliance of pre-packed commodities imported into South Africa while facilitating cross border trading.

There are currently 108 local manufacturers and 57 importers registered by the NRCS under the e-Mark scheme and 18 local manufacturers and 86 importers are in various stages of registration. The NRCS and NSI are currently reviewing the draft Mutual Acceptance Arrangement document to formalise the recognition of the e-Mark schemes.

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 the unit in these activities ensured that the Regulator remained on the cutting-edge of technological developments in the field of legal metrology.

Additionally, delegations from Egypt and Ethiopia visited the NRCS as part of their benchmarking exercises to establish legal metrology units within their respective countries.

### Stakeholder engagement

The Legal Metrology Business Unit assisted **the dti** to create awareness and inform South African commerce and industry of legal metrology technical regulation requirements through meetings with various stakeholders in the retail, cosmetics and aerosol sectors. A formal sector committee meeting, namely the Accredited Verification Laboratory Sector, was held with the view of informing stakeholders carrying out verifications on behalf of the NRCS of the LMA requirements and implications. The unit also collaborated with the Food and Associated Industry Unit of the NRCS to ensure that imported or locally manufactured fish products complied with legal metrology requirements.

### Funding

The Legal Metrology Business Unit 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 the unit in the future.

### Conclusion

The NRCS, through the Legal Metrology Unit, 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 for which they pay. However the NRCS has experienced challenges on the implementation of the extended scope of Legal Metrology in the area of health, environment and trade. Albeit, the 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) Unit administers National Building Regulations & Building Standards Act, Act No. 103 OF 1977, as amended, hereinafter referred to as the NBR&BS Act and is responsible for ensuring uniform understanding, interpretation and implementation of the NBR&BS Act and related building regulations. This role is achieved through the processes outlined below:

- Administering the National Building Regulations' Review Board – this is a process in terms of Section 9 of the NBR&BS Act that grants the right to an appeal to any person who feels aggrieved by the refusal of the local authority to grant approval in respect of:
  - \* Application for approval of building plans and other related documentations, specifications, etc.
  - \* Erection of buildings in certain circumstances subject to prohibition or conditions and
  - \* Application of National Building regulations and/or other related by-laws.
- Verification of Building Control Officers (BCOs) qualifications in terms of section 5(2) of the National Building Regulations: where the appointed person does not have the qualifications prescribed in the NBR&BS Act – BCOs are responsible for assessment and decisions on building plans and other related documentation and specifications submitted to local authorities prior to commencement of building work or building extensions/alterations. Regulatory processes entail verification of the technical expertise of the BCO to ensure that building plans are received, and applications for approval processed by a qualified person. Since accurate building drawings are essential for the safety of buildings, it is essential for a BCO to have the required qualifications as stipulated in the NBR&BS Act.
- Conducting building investigations and/or architectural forensics requested by the Minister where non-compliance is suspected and/or where structural defects are encountered which may occur due to failure in complying with building and other related regulations.
- Providing of technical advice to built-environment practitioners and BCOs to create a uniform understanding and implementation of the building regulations and other standards of practice in terms of its legislative mandate.
- Hosting of the annual BCO Convention



### Performance Highlights

#### Annual performance

- In terms of NRCS' annual performance plan, the NBR Business Unit's key performance indicator requires 100% of Review Board cases to be finalised within 30 calendar days from the date of the Review Board hearing(s). Against this target, 80% of review cases were finalised within the 30 calendar days.
- The following four cases were heard and finalised within the 30 calendar days:
  - \* Sds Spoomaker & Partners vs. the City of Tshwane Metropolitan Municipality
  - \* Estanet (Pty) Ltd vs. Ekurhulani Metropolitan Municipality
  - \* Misty Sea Trading 339 (Pty) Ltd vs. City of Cape Town Metropolitan Municipality
  - \* Rowmoor Investment 567 (PTY) vs. City of Cape Town Metropolitan Municipality
- One case (LJK Fire Engineering Consultant vs Nelson Mandela Bay Municipality) was not finalised within the required 30 calendar days. The main reason for the delay in finalising this case was that the Review Board members were required to visit the premises for inspection, after the hearing. The Chairperson of the Review

Board finalised the report on 22 February 2017 and the NRCS closed and communicated the decision on 8 March 2017 (14 calendar days after the final report).

- The review of the Act: Submissions made to **the dti** on proposed amendments to the current Act and participation in the task team responsible for drafting the Bill.
- The 2016 Annual Building Control Officer's Convention was held on 24 November 2016. The convention was co-hosted with the Ekurhuleni Metropolitan Municipality and attended by approximately 200 people from municipalities across the country, as well as built organisations such as Agrément, Council for the Built Environment and the South African Council for Architectural Professions. Positive feedback was received from attendants.
- Four BCO Steering Committee meetings were held during the financial year.
- The NRCS' Port Elizabeth Old Building: Fire Inspection report was finalised.

### Stakeholder engagement

In 2016/17, the NBR was involved in several stakeholder engagements within the built environment. The objectives of these engagements were to foster a common understanding of the national building regulation and standards, and communicate the role of the NRCS in the built environment. Sixty internal and external stakeholder meetings took place during the financial year. These meetings are open to any affected or interested party and are widely attended.

### Participation in national forums

The NBR hosted or participated in fifteen (15) inter-governmental meetings hosted by other departments such as **the dti**, Department of Energy, BCOs, Local Government Sector Education and Training Authority and the Engineering Council of South Africa. This is part of ongoing effort to foster strategic partnerships with other institutions, policy makers and industries to ensure uniform understanding, interpretation and implementation of the NBR&BS Act, and NBR Regulations and Standards. The NRCS officials actively participate in these forums as secretariat for the BCO steering committee. The business unit also participated in 30 meetings of Technical Committees and related working groups of the SABS responsible for developing, adopting and maintaining SANS applicable to national building regulations and building materials regulated by the NRCS.

### Training

The NBR staff attended 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; training is thereafter provided in conjunction with the Human Resources Unit. The NBR Technical Advisor gave several presentations about NRCS and national building regulations and standards in various forums, such as the Southern Cape industry, insulation and fire industries, Review Board induction, Lephalale building conference and Agrément interviews.

### Challenges

The unit experienced the following challenges during the year:

- The uncertainty around the continued existence of the Review Board, due to the court challenge by the City of Johannesburg Metropolitan Municipality and others on the constitutionality of the Review Board. The court judgement and the review of the NBR&BS Act will inform the position going forward.
- The high operating costs for the Review Board when compared to the low fee payable for lodging an appeal, this matter has been raised with **the dti** to consider in reviewing of the Act.

### Conclusion

The NBR&BS Act is currently being reviewed by **the dti** in order to align it with the Constitution of South Africa, 1996. This process is expected to result in substantial changes to the Act. In the next financial year, the NRCS will actively participate in the review process as well as closely monitor developments and work with other affected stakeholders to ensure the best possible outcomes.

## Regulatory Research and Development

### Overview

The Regulatory Research and Development (RR&D) Unit supports the NRCS' Strategic Goal 1: develop, maintain and administer compulsory specifications (VCs) and technical regulations (TR). The business unit identifies the need for new or amendments to the VCs and TRs, according to the latest international and national requirements. Furthermore, RR&D conducts regulatory research to benchmark NRCS' regulatory practices to international best practice and to inform regulatory decisions that are included in VCs and TRs. The RR&D gives effect to this strategic objective through several operational activities, which include feasibility studies, risk assessment, impact assessment of the products and proposed VCs among other processes.



The NRCS, together with the other technical infrastructure institutions, supports the Industrial Policy Action Plan (IPAP) of **the dti** by developing compulsory specifications that promote industrial development initiatives across different sectors. In line with the latest iteration of the IPAP, the NRCS contributed to green industries, electro-technical, footwear, plastics and chemicals, automotive products and components as well as agro-processing key action programmes. These projects are expected to have a positive impact on public safety, the environment, and energy efficiency in the domestic sector as well as formalised export certification of fish and fishery products.

### Performance highlights

#### The development and maintenance of compulsory specifications (VCs) and technical regulations (TRs)

- In the period under review, the RR&D Unit opened 41 projects of which 18 were new developments and 22 amendments. These are at various project stages.
- Ten VCs/TRs were targeted for completion or approval by the NRCS Technical Committee and the CEO for submission to **the dti** of which five were completed and approved. This represents an achievement of 50% of the set target. One project was not completed because of delays in finalising the proposed levies to be paid to the NRCS. IPAP targets for 2016/17 in the eletro-technical, foods and chemicals, mechanical and material sectors were achieved.

#### Five compulsory specifications/technical regulations were completed during the period under review

- VC 9103: new Compulsory Specification for Low Power Generating Sets.
- VC 8055: the amendment of the Compulsory Specification for Electric and Electronic Apparatus.
- Regulation on import conditions for fish and fishery products and canned meat products regulated under the NRCS Act.
- VC 9107: new Compulsory Specification for Aquaculture Live and Chilled Raw Bivalve Molluscs.
- VC 8076: amendment of the Compulsory Specification for Safety of lighters.

#### Four draft compulsory specifications for first gazettes/notices for public comments published by the dti

- VC 8035: amendment of the Compulsory Specification for Earth Leakage Units.
- VC 8075: amendment of the Compulsory Specification for Electric Cables with Extruded Solid Dielectric Insulation for Fixed Installations (300/500 V to 1 900/3 300 V).

- VC 8077: amendment of the Compulsory Specification for Safety of Medium-voltage Electric Cables.
- VC 8011: amendment of the Compulsory Specification for Lamp Holders.

#### **Five final gazettes published by the dti**

- VC 9006: amendment of the Compulsory Specification for Hot Water Storage Tanks for Domestic Use.
- VC 9104: new Compulsory Specification for Live Lobsters.
- VC 9105: new Compulsory Specification for the Safety of Electrical Motor-operated or Magnetically Driven Hand-held Tools, Transportable Tools and Lawn and Garden Machinery.
- VC 8077: amendment of the Compulsory Specification for Safety of Medium-voltage Electric Cables.
- VC 8011: amendment of the Compulsory Specification for Lamp Holders.

#### **Five compulsory specifications submitted to the dti for final gazetting which are still being processed**

- VC 8035: amendment of the Compulsory Specification for Earth Leakage Units.
- VC 8056: amendment of the Compulsory Specification for Passenger Car Tyres and their Trailers.
- VC 8059: amendment of the Compulsory Specification for Commercial Vehicle Tyres and their Trailers.
- VC 8013: amendment of the Compulsory Specification for Hydraulic Brake and Clutch Fluid.
- VC 8054: amendment of the Compulsory Specification for Disinfectants and Detergent Disinfectants.

#### **The RR&D Project Approvals Committee reviewed and approved a number of project reports**

There was progress made in the completing of projects, some of which were not targeted for completion during the period under review but are part of the progressive achievement of project milestones by RR&D. In addition to the performance indicated above, extensive research was conducted as part of several feasibility studies in risk assessments and impact assessments during the year. The reports produced are approved by the Project Approvals Committee (PAC) of the RR&D, which is responsible for managing the progress and quality control of projects registered in the RR&D. The PAC's main role is to appraise and approve technical reports produced during the projects and to make recommendations on actions needed to improve outcomes prior to submission to the NRCS' Technical Committee. During the 2016/17 financial year the PAC reviewed and approved several reports required as part of the corporate procedure for the development of technical regulations/compulsory specifications including six feasibility studies, six periodic reviews, three risk assessments and three impact assessment reports.

#### **Research Projects**

The business unit assisted in finalising a National Regulatory Database led by **the dti**.

#### **Stakeholder engagement**

The RR&D Unit focuses on building strong stakeholder relationships that encourage participation in processes that determine regulations. Stakeholder engagement is primarily to ensure transparency and accountability, in the development and maintenance of VCs and TRs. In order to achieve greater participation, the NRCS establishes broad-based (multi-disciplinary/sectors) stakeholder group representing common interests comprised of experts (technical, academic and industrial), other government departments and government entities, non-governmental organisations (NGOs), industry bodies, consumer bodies and other organised civil society groups, as necessary.

In 2016/17, the unit convened twenty one (21) stakeholder consultation meetings on proposed regulatory interventions. These meetings are open to any affected or interested party and are widely attended, however, greater participation of SMEs in these meetings is required.

## National, regional and international involvement

The 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:

### Participation in national forums

The RR&D hosted or participated in 56 inter-governmental meetings hosted by other departments such as **the dti**, DoT, Department of Environmental Affairs, DoH and DAFF. This is part of the ongoing effort to foster strategic partnerships with other regulators, policy makers and industries to ensure relevance of the outcomes of the processes in developing and maintaining compulsory specifications. The NRCS officials serve in several national coordinating structures such as the Inter-departmental Task Team on Food Control and the Appliance Standards, the Multi-sector Committee on Chemicals Management, and the Labelling Group of the Department of Energy. The unit also participated in 31 meetings of technical committees and related working groups of the SABS.

### International/Regional liaison

The business unit participated in and contributed to international initiatives, by either providing technical expertise assistance in discussions/technical documents or attendance of meetings as national representatives. The business unit participated in international standardisation bodies such as the IEC, ISO and Codex, and also in the regional standardisation (SADCStan).

## Challenges

The overall time spent on developing regulations depends on the amount of variables (some of which are outside the control of the RR&D) that sometimes negatively affect the completion 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. The availability of SANS for referencing in proposed regulatory interventions can also result in delays. In addition, the lack of required testing facilities e.g. accredited laboratories, may delay the implementation of new regulatory requirements to align with the availability of testing services.

Further challenges include rapidly changing technologies combined with a lack of participation by experts in various fields, as well as the availability of official research articles or relevant quantitative data to aid in comprehensive regulatory impact assessments in proposed compulsory specifications.

## Conclusion

The focus in future will be on proactively identifying the regulatory gap of unsafe products in the scope of the NRCS' regulatory work and enhancing research capacity to enable the NRCS to intelligently deliver on its mandate. The strategic target for the unit in 2017/18 is to complete the development of two new and six amended compulsory specifications and technical regulations. The unit will also complete six periodic review reports, two feasibility study reports and two regulatory impact assessment reports.



## Communications and Marketing

### Executive summary

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

### Progress overview

The unit is responsible for the NRCS' Strategic Goal 3: inform and educate our stakeholders about the NRCS. Activities of the unit are arranged in line with this goal as outlined in the NRCS Strategic Plan and the Annual Performance Plan.

### Performance report narrative

#### Consumer education

The unit continued to work with various stakeholders in an effort to market the Regulator and strengthen its brand. For the period under review, the unit conducted several consumer awareness programmes in conjunction with other government departments and agencies, and various municipalities across the country where the Paraffin Stoves Safety Campaign was undertaken. The unit conducted 12 outreach programmes as per the Annual Performance Plan target for 2016/17. These programmes conducted in the North West, Free State, Western Cape and KwaZulu-Natal played a key role in educating thousands of the most vulnerable community members about the danger of using unsafe products.

#### Media liaison activities

##### Multi-media campaign

The unit implemented two multi-media campaigns during the period under review in line with its target. The first campaign consisted of an outside broadcast with Radio Teemaneng during the Paraffin Stoves Safety Campaign which was held in Kimberley on 17 November. This was followed by a print media campaign. The unit placed newspaper adverts in various provinces during the levy consultation sessions, strengthening the profile of the Regulator with its stakeholders. In addition, the unit undertook branding of all the organisations vehicles to promote and enhance recognition.

##### Media statements and interviews

The unit communicates organisational messages and key activities through various media platforms. During the period under review, the unit compiled several media releases for distribution on topical issues and regulatory activities of the NRCS. It is through these platforms that the unit is able to reach a wider audience and educate them about the mandate of the Regulator. Seven media statements were issued during this period; aimed at, popularising a variety of NRCS campaigns. Media statements and releases were augmented by interviews which were conducted with different radio stations, TV channels and publications – at no cost to the organisation thereby generating free publicity for the NRCS.





## Publications

To enhance communication with both staff and the industry, the unit compiled 12 internal newsletters in order to keep staff informed of developments in the NRCS and four industry-focused publications to enhance communication with industry members.

## Marketing

The unit used digital media to market the organisation and create easy access to the NRCS information, including regular updates of the website and Facebook page.

## Stakeholder management

The unit facilitated numerous stakeholder engagements aimed at shaping perceptions and creating awareness of the NRCS. It further facilitated information and consultation sessions with industry members on the proposed levy increase through promoting maximum participation and getting industry buy-in aimed at paving the way for the Minister of Trade and Industry, Dr Rob Davies, to gazette the tariffs. During the campaigns the unit also regularly engage with officials from various municipalities, members of the SAPS, emergency services, **the dti**, COGTA, provincial legislatures and other government departments. Additionally, the unit met with the Chinese Business Forum and the informal traders in KwaZulu-Natal to provide education about safety requirements and the Letter of Authority (LoA) application processes.

## Event management

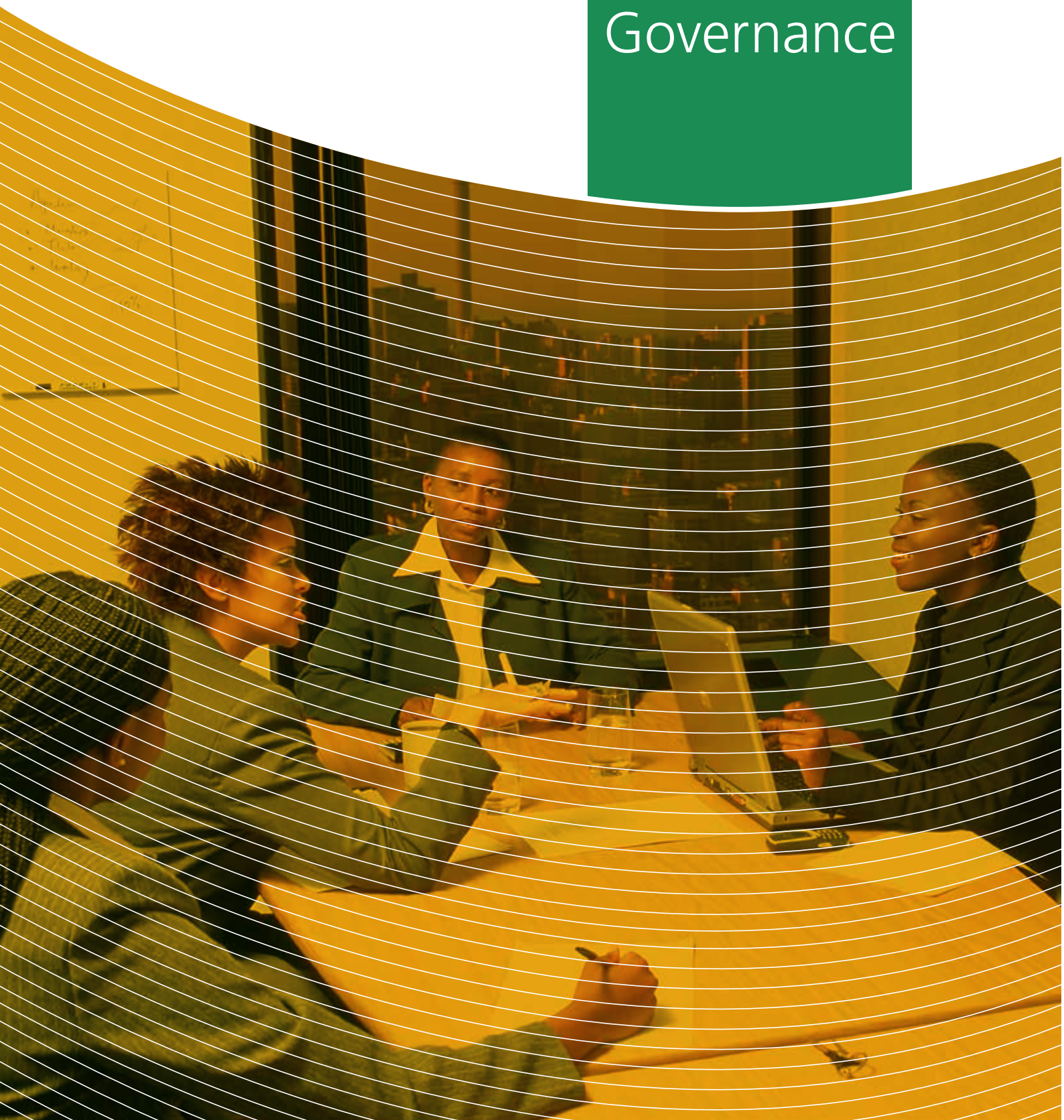
Working together with its strategic partners, the unit collaborated and successfully staged events such as the BCO Conference in Ekurhuleni. During the year the Paraffin Stoves Safety Campaign was also implemented in the Free State, North West, Northern Cape and Western Cape through a series of provincial roadshows/events.

## Conclusion

Despite capacity challenges, the unit managed to achieve all its targets for the year. The unit continues to make major strides in its drive to market and promote the NRCS and to create an understanding of its role and mandate.

# PART C

## Governance



# Governance

## 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 protocol on good corporate governance, as defined in the Public Finance Management Act (PFMA). In managing its activities, the Regulator strives to achieve transparency, accountability, efficiency and the effective use of resources.

## Executive Authority

The NRCS is an entity of **the dti**, and complies with its obligations in terms of its shareholder compact by submitting quarterly reports to **the dti**. These reports are approved by the Executive Authority.

## Accounting Authority

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

## Governance committees

Table 13: Governance committees 2016/17

Committee	No. of meetings held	Audit Committee Member	Names of members	No. of meetings attended
Audit and Risk Committee	5	Independent member	Mr S Kajee	4/4
			Mr A Cowell	4/4
			Ms N Tshobeni*	0/3
		<b>the dti</b> representative	Ms M Ramatla	4/4
Information Communications Technology Steering Committee	3	Independent member	A Rodolo	2/2
			K Paul	2/2

\*Ms N Tshobeni ceased to be a member on 23 November 2016

## Audit and Risk Committee

The role of the Audit and Risk Committee is discussed on page 54.

## Technical Committee

The Technical Committee is 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 is responsible for:

- Considering and advising the CEO on proposed 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 Trade Metrology Act and
- Addressing any issues as requested by the Executive Authority that are 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 and including relevant policies and procedures. Through this system, management identifies threats and activities that, should they arise, may negatively impact on 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, aiding the Accounting Authority in the management of the NRCS' risks. The committee also played a significant role in identifying strategic areas of concern during the financial period under review.

## 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. 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, the unit is comprised of four employees and is complemented by a co-sourced internal audit partner. The contract for a co-sourced internal audit partner has since expired and the unit is currently in the process of appointing a new service provider.

## Audit work done during the year

During the year under review, the Internal Audit Unit planned 15 risk-based audit projects, all of which were successfully concluded. It also concluded the following tasks, in consultation with 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;
- A risk-based annual Internal Audit Plan;
- Developed the scope, cost and timelines of each audit set out in the annual Internal Audit Plan and
- Audit reports, directed to the Audit and Risk Committee detailing the unit's performance against the plan, to allow for effective monitoring and intervention when necessary.

Where possible, the Internal Audit Unit consulted with the Auditor-General of South Africa to ensure proper audit coverage and to minimise the duplication of efforts. It also assisted the Accounting Authority in maintaining the system of internal control, by evaluating controls and developing recommendations for enhancement or improvement.

The unit further assisted the Accounting Authority in achieving the NRCS's 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 operation or programmes are reviewed to ascertain whether results are consistent with the NRCS' established objectives and goals, and whether the operations or programmes are being carried out as planned and
- The adequacy of established systems and procedures are assessed.

## Fraud and corruption

The NRCS is committed to 'zero tolerance' with regards to 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. Complaints from customers that were received were directed to the Quality Management (QM) 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. Employees are required to declare their financial interests annually, at management meetings, and for each project that requires a decision of a financial nature. All gifts above a 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 63% 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 all employees to high ethical standards and conduct. The full suite of NRCS policies are available for the perusal of all NRCS employees, and guide employees on how to 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, the health, safety and environment structure was fully functional.

## Company secretary

The company secretariat function is performed by the Governance and QMS Business Unit. The mandate of the secretariat is derived from the NRCS Governance Framework that was implemented on 2 June 2015.

## Social responsibility

The NRCS, having conducted market surveillance inspections over the past three years 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 and have negative social effects on communities. In response to this challenge, the NRCS together with: **the dti**, COGTA, NCC, Ekurhuleni Metropolitan Municipality, City of Cape Town Metropolitan Municipality, Sol Plaatje Local Municipality, Masilonyana Local Municipality and City of Matlosana Local Municipality, distributed compliant paraffin stoves in exchange for non-compliant stoves.

Almost 3 000 stoves were distributed nation-wide as detailed below:

Masiphumele, Western Cape - 900 stoves;

Madiba Park, Northern Cape - 650 stoves;

Theunissen, Free State - 790 stoves;

Ntshune/Klerksdorp, North West - 480 stoves and

Kempton Park, Gauteng - 150 stoves.

## 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/November 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, that reliable performance information is produced and reported, that the organisation complies with all relevant legislation and achievement of objectives, and that it is economically effective and make efficient use of resources.

From the various reports submitted by the Internal Audit Unit and the external auditors, 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, and compliance with supply chain regulations. The committee also noted with concern that line management had not adhered to dates as 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 perform all the work required internally in terms of the approved Internal Audit Plan. The unit was subject to a quality assurance review which indicates that it partially conforms to the IIA Standards. An action plan has been tabled and its implementation will be monitored by the committee.

### Auditor's report

The AGSA issued a qualified audit opinion in 2016/17 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, because of the quantum of work which still needs to be done. This includes consultation with the industry, implementation of new systems and technology, review of processes, revision of the legislation and regulations, business process optimisation and industry consultation.

### Review of budget and Annual Performance Plan

The committee has flagged its concerns regarding the sustainability of the organisation without a significant increase in revenue from levies. The promulgation of the Border Management Bill and establishment of the Border Management Agency (BMA), which will take over some of the NRCS 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 and
- Reviewed the appropriateness of accounting policies and practices in the quarterly reports.

### Approval of the report

The Audit and Risk Committee, which has oversight responsibility for annual reporting, recommended the report for approval by the Board. The Board approved the 2016/17 Annual Report on page 10.



SAH Kajee

Audit and Risk Committee Chairperson

31 July 2017



# PART D

## HR Management



## Human Resources overview

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 the NRCS' mandate is carried out efficiently and effectively.

### HR priorities for the year

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

- Ensure that the organisation 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 the NRCS policies and relevant employment legislation;
- Develop a workplace skills plan to ensure enforcement of the Skills Development Act 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 and
- Ensure that recruitment and selection is in line with Employment Equity target of the organisation.

### Workforce planning framework

A Draft HR Plan was developed and is currently in the process of finalisation, 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 last financial year to assist in ensuring that performance is monitored and measured accordingly and ensure that employee performance is aligned to the strategic goals of the organisation and also 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 Business Unit and the other part 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 and referrals were made accordingly. Various group sessions were also provided to NRCS employees and wellness days took place in all the NRCS regions.

### Policy development

The HR Business Unit embarked on a project to review the NRCS HR policies in order to align them with the signed wage agreements and also to relevant legislation. Four policies were reviewed while others are still in the process of finalisation.

### Highlights

Wage agreements were concluded within the period under review and 90% of the agreement's terms were implemented within the agreed timelines.

## Future HR plans/goals

- Automate and take ownership of the payroll system as it is currently manual and outsourced to an external service provider;
- Review and revise the NRCS fundamental roles, responsibilities, processes and accountabilities;
- Realign the NRCS organisational policies, people, processes and technology to meet defined human resource demands;
- Revise roles for human resources;
- Optimise HR business processes to ensure organisational efficiency;
- Integrate the entire HR value chain from the HR governance framework to service delivery and
- Review the organisational structure and job grading for NRCS role profiles.

## HR oversight statistics

### Human Resources expenditure

Table 14: Personnel costs by programme

Programme	Total expenditure (R'000)	Personnel expenditure (R'000)	Training expenditure (R'000)	Professional and special services (R'000)	Personnel cost as a percent of total expenditure	Average personnel cost per employee (R'000)
Develop, maintain and administer VCs and TRs	6 341	5 703	52	3	89.94%	713
Maximise compliance with all specifications and TRs	209 606	188 403	1 966	89	89.88%	826
Inform and educate our stakeholders about the NRCS	5 261	3 919	34	3	74.49%	560
Ensure an optimally capacitated institution	60 818	39 936	441	19	65.66%	799
Administration	44 335	20 216	1 184	9	45.60%	879
<b>Total</b>	<b>326 361</b>	<b>258 177</b>	<b>3 677</b>	<b>123</b>	<b>79.11%</b>	<b>817</b>

Table 15: Personnel costs by salary bands

Salary bands	Personnel Expenditure (R'000)	% of total personnel cost	Average personnel cost per employee (R'000)
Contractors	312	0.12%	104
Interns	542	0.21%	68
Lower level skilled	89	0.03%	89
Semi-skilled	3 575	1.39%	397
Skilled	40 845	15.82%	552
Professionally qualified	149 568	57.93%	935
Senior management	56 216	21.78%	986
Top management	7 030	2.72%	1 758
<b>Total</b>	<b>258 177</b>	<b>100.00%</b>	<b>817</b>

Table 16: Salaries, overtime, home owners allowance and medical assistance by programme, 2016/17

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	4 478	78.52%	75	1.32%	74	1.30%	283	4.96%
Maximise compliance with all specifications and TRs	135 538	71.94%	2 188	1.16%	3 330	1.77%	7 555	4.01%
Inform and educate our stakeholders about the NRCS	3 029	77.29%	-	0.00%	92	2.35%	144	3.67%
Ensure an optimally capacitated institution	26 671	66.78%	391	0.98%	614	1.54%	1 415	3.54%
Administration	16 443	81.34%	-	0.00%	214	1.06%	539	2.67%
<b>Total</b>	<b>186 159</b>	<b>72.11%</b>	<b>2 654</b>	<b>1.03%</b>	<b>4 324</b>	<b>1.67%</b>	<b>9 936</b>	<b>3.85%</b>

Table 17: Salaries, overtime, home owners allowance and medical assistance by salary bands, 2016/17

Salary Bands	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	39	12.50%	-	0.00%	-	0.00%	-	0.00%
Interns	528	97.42%	2	0.37%	-	0.00%	-	0.00%
Lower level skilled	61	68.54%	-	0.00%	6	6.74%	14	15.73%
Semi-skilled	2 572	71.94%	6	0.17%	147	4.11%	311	8.70%
Skilled	29 717	72.76%	487	1.19%	1 148	2.81%	2 340	5.73%
Professionally qualified	102 073	68.25%	1 337	0.89%	2 526	1.69%	5 411	3.62%
Senior management	45 640	81.19%	822	1.46%	490	0.87%	1 806	3.21%
Top management	5 529	78.65%	-	0.00%	7	0.10%	54	0.77%
<b>Total</b>	<b>186 159</b>	<b>72.11%</b>	<b>2 654</b>	<b>1.03%</b>	<b>4 324</b>	<b>1.67%</b>	<b>9 936</b>	<b>3.85%</b>

### Employment and vacancies

Table 18 – Employment and vacancies by programme

Programme (Business units)	Number of posts	Number of posts filled	Vacancy rate	Number of posts filled additional to the establishment
Automotive	45	43	4.4	
Business Support	5	4	20.0	1 (intern)
CMM	31	28	9.4	1 (intern)
Communications	6	6	0.0	1 (intern)
Electro-technical	47	41	12.5	1 (intern)
Finance	30	27	6.3	1 (intern)
Foods	52	47	9.4	1 (intern)
HR	11	9	18.2	-
Internal Audit	4	4	0.0	-
IT Services	7	6	0.0	-
Legal Metrology	64	59	6.3	-
Legal services	6	5	16.7	-
NBR	4	3	40.0	1 (intern)
Records Facilities	3	3	0.0	
RR&D	10	3	70.0	-
Regulatory Management	2	1	50.00	
NRCS Board	1	0	100.0	
Executive Business	1	0	100.00	
<b>Total</b>	<b>329</b>	<b>289</b>	<b>12.2</b>	<b>7 (interns)</b>

Table 19: Employment and vacancies by salary bands

Salary band	Number of posts	Number of posts filled	Vacancy rate	Number of posts filled additional to the establishment
Top Management (P2–3)	(4) 4	0	100%	1 Secondment from the dti
Senior Management and high level specialists (P4–6)	(17) 68	51	25%	
Middle Management superintendents and lower level specialists (P7–9)	(5) 163	158	2.9%	
Supervisors and high-level skilled/clerical (P10–12)	(13) 84	71	15.4%	
Lower-level skilled/clerical (P13–16)	(1) 10	9	10%	
<b>Total</b>	<b>(40) 329</b>	<b>289</b>	<b>12%</b>	

Table 20: Employment and vacancies by critical occupation

Critical occupations	Number of posts	Number of posts filled	Vacancy Rate	Number of posts filled additional to the establishment
Top management (P2–3)	(4) 4	0	100%	None
Supervisors and high-level skilled/clerical (P10–12)	(13) 84	71	18.3%	
<b>Total</b>	<b>88</b>	<b>71</b>	<b>80%</b>	

## Job evaluation

Table 21: Job evaluation

Salary band	Number of posts	Number of Jobs Evaluated	% of posts evaluated by salary bands	Posts upgraded		Posts downgraded	
				Number	% of posts evaluated	Number	% of posts evaluated
Top management	4	-	-	-	-	-	-
Senior management	62	5	8.1%	4	6.45%	-	-
Professional qualified and experienced specialists and mid-management, supervisors, foremen, and superintendents	163	1	0.6%	-	-	-	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	74	-	-	-	-	-	-
Semi-skilled and discretionary decision	9	1	11.1%	-	-	-	-
Unskilled and defined decision making	8	-	-	-	-	-	-
<b>Total</b>	<b>320</b>	<b>7</b>	<b>19.8%</b>	<b>4</b>	<b>6.45%</b>	<b>-</b>	<b>-</b>

Table 22: Profile of employees whose salary positions were upgraded due to their posts being upgraded

Beneficiaries	African	Asian	Coloured	White	Total
Female	-	-	-	-	-
Male	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Employees with a disability	-	-	-	-	-



Table 23: Employees whose salary levels exceed the grade determined by job evaluation,  
1 April 2016 to 31 March 2017

Occupation	Number of employees	Job evaluation level	Remuneration level	Reason for deviation
Admin Officer/Coordinator	23	P11		Wage agreement 2015/16
Call Centre Operator	4	P11		Wage agreement 2015/16
Credit Controller: Accounts Receivables	2	P10		Wage agreement 2015/16
Creditors Officer	3	P11		Wage agreement 2015/16
Evaluator	3	P10		Wage agreement 2015/16
Financial Officer (Levies): Accounts Receivables	2	P11		Wage agreement 2015/16
Financial Officer: Accounts Receivables	6	P11		Wage agreement 2015/16
Health & Safety Officer	1	P8		Wage agreement 2015/16
HR Officer	4	P9		Wage agreement 2015/16
HRD Officer	1	P9		Wage agreement 2015/16
Internal Auditor	3	P8		Wage agreement 2015/16
IT Business Applications Officer	1	P9		Wage agreement 2015/16
IT Network Specialist	1	P7		CCMA
IT Security Specialist	1	P7		CCMA
IT Support Officer	2	P9		Wage agreement 2015/16
Lab Assistant	7	P13		Wage agreement 2015/16
Lab Assistant/Truck Driver	1	P13		Wage agreement 2015/16
Legal Admin Officer	1	P11		Wage agreement 2015/16
Legal Advisor	1	P7		CCMA
Levy Auditor	2	P9		Wage agreement 2015/16
Manager: Accounts Receivables	1	P8		Wage agreement 2015/16
Manager: Fixed Assets & Recon	1	P8		Wage agreement 2015/16
Media & PR Specialist	1	P8		CCMA
Messenger & Admin Officer	1	P13		Wage agreement 2015/16
Purchasing/Procurement Officer	3	P10		Wage agreement 2015/16
QMS Officer	1	P8		Wage agreement 2015/16
Receiving Officer: Accounts Receivables	1	P11		Wage agreement 2015/16
Receptionist	3	P12		Wage agreement 2015/16
Sampler	4	P12		Wage agreement 2015/16
<b>Total number of employees whose salaries exceeded the level determined by job evaluation in 2016/17</b>				85
Percentage of total employment				27%

Table 24: Profile of employees whose salary level exceed the grade determined by job evaluation

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

## Employment changes

Table 25: Annual turnover rates by salary band for the period 1 April 2016 to 31 March 2017

Salary band	Number of employees per band as at 1 April 2016	Appointments and transfers into the NRCS	Terminations and transfers out of the NRCS	Turnover rate
Lower skilled (P13–16)	9	1	0	0%
Skilled (P10-12)	71	0	0	0%
Highly skilled production (P7-9 )	158	0	3	1.8%
Highly skilled supervision	-	-	-	-
Senior management service band A (P5-6)	48	0	4	8.3%
Senior management service band B (P4)	3	0	2	66.6%
Senior management service band C (P3)	0	0	2	100%
Senior management service band D (P2)	0	0	1	100%
<b>Total</b>	289	1	12	4.15%

Table 26: Annual turnover rates by critical occupation for the period 1 April 2016 to 31 March 2017

Occupation	Number of employees per occupation as at 1 April 2016	Appointments and transfers	Terminations and transfers out of the NRCS	Turnover rate
Chief Executive Officer	1	0	1	100%
Chief Financial Officer	1	0	1	100%
Chief Operating Officer	0	0	0	0%
General Manager	5	0	2	40%
<b>Total</b>	7	0	4	57%

Table 27: Reasons why staff are leaving the NRCS

Termination type	Number	% of total
Death	-	
Resignation	7	2.1%
Expiry of contract	-	
Dismissal – operational changes	-	
Dismissal – misconduct	1	0.3%
Dismissal – inefficiency	-	
Discharged due to ill-health	-	
Retirement	3	0.9%
Transfers to other public service departments	-	
Other	-	
<b>Total</b>	11	3.6% (329)
Total number of employees who left as a % of the total employment		4.1% (289)

Table 28: Promotions by critical occupation

Occupation	Employees as at 1 April 2016	Promotions to another salary level	Salary level promotions as a % of employees by occupation	Progressions to another notch within a salary level	Notch progressions as a % of employees by occupation
Senior Inspector	3	9		N/a	
Principal Inspector	119	2		N/a	
<b>Total</b>	122	11		N/a	

Table 29: Promotions by salary band

Salary band	Employees as at 1 April 2016	Promotions to another salary level	Salary band 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	-	-	-	-	-
Senior management	-	-	-	-	-
Professionally qualified and experienced specialists and mid-management	122	11	9%	-	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	-	-	-	-	-
Semi-skilled and discretionary decision making	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-

## Employment equity

Table 30: Total number of employees (including employees with disabilities) in each of the following occupational categories as at 31 March 2017

Occupational categories	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	-	-	-	-	-	-	-	-	-
Senior management	21	3	-	12	11	1	-	3	51
Professionally qualified and experienced specialists and mid-management	65	19	8	19	37	5	2	3	158
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	9	3	-	-	42	7	2	10	73
Semi-skilled and discretionary decision making	5	2	-	-	2	-	-	-	9
Unskilled and defined decision making	4	-	-	-	3	-	-	-	7
<b>Total</b>	104	27	8	31	95	13	4	16	298
Employees with disabilities	-	-	-	-	-	-	-	1	1

Table 31: Recruitment for the period 1 April 2016 to 31 March 2017 (inclusive of interns)

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

Table 32: Promotions for the period 1 April 2016 to 31 March 2017

Occupational bands	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	-	-	-	-	-	-	-	-	-
Senior management	-	-	-	-	-	-	-	-	-
Professionally qualified and experienced specialists and mid-management	7	-	-	-	4	-	-	-	11
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	-	-	-	-	-	-	-	-	-
Semi-skilled and discretionary decision making	-	-	-	-	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>
Employees with disabilities	-	-	-	-	-	-	-	-	-

Table 33: Terminations for the period 1 April 2016 to 31 March 2017 (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>

Table 34: Disciplinary action for the period 1 April 2016 to 31 March 2017

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

Table 35: Skills development for the period 1 April 2016 to 31 March 2017

Occupational categories	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	-	-	-	-	-	-	-	-	-
Senior management	20	3	-	12	10	1	3	-	49
Professionally qualified and experienced specialists and mid-management	66	18	8	18	40	5	2	3	158
Skilled technical and academically qualified workers, supervisors, foreman and superintendents.	9	4	-	1	40	7	2	10	73
Semi-skilled and discretionary decision making.	5	2	-	-	1	-	-	-	8
Unskilled and defined decision making	-	-	-	-	1	-	-	-	1
Craft and related trades workers	-	-	-	-	-	-	-	-	-
<b>Total</b>	100	27	8	31	95	13	4	16	289
Employees with disabilities	-	-	-	-	-	-	-	-1	-

## Performance rewards

No performance bonuses were paid to employees by the NRCS during the period under review

## Foreign workers

Table 36: Foreign workers, 1 April 2016 to 31 March 2017, by salary band

Salary band	1 April 2016		31 March 2017		Change	
	Number	% of total	Number	% of total	Number	% change
Top management (P2–3)	-	-	-	-	-	-
Senior management and high level specialists (P4–6)	2	0.7%	2	0.7%	-	-
Middle management superintendents and lower level specialists (P7–9)	-	-	-	-	-	-
Supervisors and high-level skilled/ clerical (P10–12)	-	-	-	-	-	-
Lower-level skilled/clerical (P13–16)	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>0.7%</b>	<b>2</b>	<b>0.7%</b>	<b>-</b>	<b>-</b>

Table 37: Foreign worker, 1 April 2016 to 31 March 2017, by major occupation

Major occupation	1 April 2016		31 March 2017		Change	
	Number	% of total	Number	% of total	Number	% change
Management	2	0.7%	2	0.7%	-	-
<b>Total</b>	<b>2</b>	<b>0.7%</b>	<b>2</b>	<b>0.7%</b>	<b>-</b>	<b>-</b>

## Leave utilisation

Table 38: Sick leave, 1 April 2016 to 31 March 2017

Salary band	Total days	% days with medical certification	Number of employees using sick leave	% of total employees using sick leave	Average days per employee	Estimated cost (R'000)
Top management (P2–3)	-	-	-	-	-	-
Senior management & high Level specialists (P4–6)	582	22.34%	49	96%	11.88	R2 207
Middle management superintendents and lower level specialists (P7–9)	1 340.5	20.44%	96	61%	13.96	R4 819
Supervisors and high-level skilled/clerical (P10–12)	574.5	7.48%	54	76%	10.64	R1 219
Lower-level skilled/clerical (P13–16)	-	-	-	-	-	-
<b>Total</b>	<b>2 497</b>	<b>17.90%</b>	<b>199</b>	<b>68.86%</b>	<b>-</b>	<b>R8 245</b>



Table 39: Disability leave (temporary and permanent)

Salary band	Total days taken	% days with medical certification	Number of employees using disability leave	% of total employees using disability leave	Average days per employee	Estimated cost (R'000)
Top management (P2–3)	-	-	-	-	-	-
Senior management and high Level specialists (P4–6)	-	-	-	-	-	-
Middle management superintendents and lower level specialists (P7–9)	24	100%	1	-	24	-
Supervisors and high-level skilled/clerical (P10–12)	44	100%	1	-	44	-
Lower-level skilled/clerical (P13–16)	-	-	-	-	-	-
<b>Total</b>	<b>68</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>34</b>	<b>-</b>

Disability leave is handled by the Pension Fund.

Table 40: Annual leave

Salary bands	Total days taken	Average per employee
Top management (P2–3)	1	1
Senior management (P4–6)	374.5	9.6
Middle management (P7–9)	1 162.5	10.7
Supervisors and high-level skilled/clerical (P10–12)	683.50	11.2
Lower-level skilled/clerical (P13–16)	114	14
<b>Total</b>	<b>2 335.5</b>	<b>10.8</b>

Table 41: Capped leave

Salary bands	Total days of capped leave taken	Average number of days taken per employee	Average capped leave per employee as at 31 March 2017
Top management (P2–3)	4	4	-
Senior management (P4–6)	947	18.5	-
Middle management (P7–9)	2 695.5	18	-
Supervisors and high-level skilled/clerical (P10–12)	830	12.57	-
Lower-level skilled/clerical (P13–16)	80	10	-
<b>Total</b>	<b>4 556.5</b>	<b>16.5</b>	<b>-</b>

Table 42: Leave payouts for the period 1 April 2016 to 31 March 2017

Reason	Total amount (R'000)	Number of employees	Average payment per employee
Leave payout due to non-utilisation of leave for the previous cycle	N/a	N/a	N/a
Capped leave and Current leave payout on termination of service	R1 078	12	89 854.79
<b>Total</b>	<b>R1 078</b>	<b>12</b>	<b>89 854.79</b>

### HIV and AIDS and health promotion programmes

Table 43: Steps taken to reduce the risk of occupational exposure

Units/categories of employees identified to be at high risk of contracting HIV and related diseases (if any)	Key steps taken to reduce the risk
HIV awareness programmes have successfully mitigated the risk of HIV.	HIV testing available in head office
Chronic medical diseases have been highlighted as a threat to the NRCS.	Disease monitoring and Occupational Health Surveillance

Table 44: Details of health promotion and HIV and AIDS programmes (tick the applicable boxes and provide the required information)

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 & Wellness officer
2. Does the NRCS have a dedicated unit or has it designated specific staff members to promote the health and well-being of your 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
3. Has the NRCS introduced an Employee Assistance or Health Promotion Programme for your employees? If so, indicate the key elements/services of this Programme.	Y		Counselling & Health Promotion
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	
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 Counseling and Testing? If so, list the results that you have achieved.	Y		
8. Has the NRCS developed measures/indicators to monitor & 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 within the NRCS.

Table 45: Collective agreements, 1 April 2016 to 31 March 2017

Subject matter	Date
Wage Settlement for Bargaining Unit	August 2016–2019
<b>Total collective agreements</b>	<b>1</b>

The following table summarises the outcome of disciplinary hearings conducted within the NRCS for the year under review.

Table 46: Misconduct and disciplinary hearings finalised, 1 April 2016 to 31 March 2017

Outcomes of disciplinary hearings	Number	% of total
Correctional counseling	1	33.3%
Verbal warning	0	
Written warning	0	
Final written warning	0	
Suspended without pay	0	
Fine	0	
Demotion	0	
Dismissal	1	33.3%
Not guilty	0	
Case withdrawn	1	33.3%
<b>Total</b>	<b>2</b>	<b>100%</b>

There was one disciplinary hearing for the 2016/17 period.

Table 47: Types of misconduct addressed at disciplinary hearings

Type of misconduct	Number	% of total
Fraud and Absenteeism	1	100%
Unacceptable Behaviour	0	0%
<b>Total</b>	<b>1</b>	<b>100%</b>

Table 48: Grievances lodged for the period 1 April 2016 to 31 March 2017

	Number	% of Total
Number of grievances resolved	2	33.3%
Number of grievances not resolved	4	66.7%
<b>Total number of grievances lodged</b>	<b>6</b>	<b>100%</b>

Table 49: Disputes lodged with councils for the period 1 April 2016 to 31 March 2017

	Number	% of Total
Number of disputes upheld	1	33.3%
Number of disputes dismissed	2	66.7%
<b>Total number of disputes lodged</b>	<b>3</b>	<b>100%</b>

Table 50: Strike actions for the period 1 April 2016 to 31 March 2017

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

Table 51: Precautionary suspensions for the period 1 April 2016 to 31 March 2017

<b>Number of people suspended</b>	2
<b>Number of people whose suspension exceeded 30 days</b>	2
<b>Average number of days suspended</b>	163
<b>Cost (R'000) of suspensions</b>	R1 563

### Skills development

Table 52: Training needs identified 1 April 2016 to 31 March 2017

Occupational categories	Gender	Number of employees as at 1 April 2016	Training needs identified at start of reporting period			Total
			Learnerships	Skills programmes and other short courses	Other forms of training	
Top management	Female	-	-	-	-	-
	Male	-	-	-	-	-
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	-	-	-	-	-
Unskilled and defined decision making	Female	-	-	-	-	-
	Male	-	-	-	-	-
<b>Total</b>		<b>289</b>	<b>-</b>	<b>289</b>	<b>-</b>	<b>289</b>

Table 53: Training provided 1 April 2016 to 31 March 2017

Occupational categories	Gender	Number of employees as at 1 April 2016	Training provided within the reporting period			Total
			Learnerships	Skills programmes and other short courses	Other forms of training	
Top management	Female	-	-	-	-	-
	Male	-	-	-	-	-
Senior management	Female	17	-	11	2	13
	Male	39	-	24	1	25
Professionally qualified and experienced specialists and mid-management	Female	47	-	26	3	29
	Male	112	-	56	2	58
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	Female	60	-	42	4	46
	Male	13	-	24	3	27
Semi-skilled and discretionary decision making	Female	1	-	1	4	5
	Male	5	-	5	2	7
Unskilled and defined decision making	Female	1	-	-	-	-
	Male	-	-	-	-	-
Sub Total	Female	126	-	80	13	93
	Male	163	-	109	8	117
<b>Total</b>		289	0	189	21	210

## Injury on duty

The following table provide basic information on injury on duty.

Table 54: Injury on duty, 1 April 2016 to 31 March 2017

Nature of injury on duty	Number	% of total
Required basic medical attention only	7	2.19
Temporary total disablement	-	-
Permanent disablement	-	-
Fatal	-	-
<b>Total</b>	<b>7</b>	<b>2.19</b>

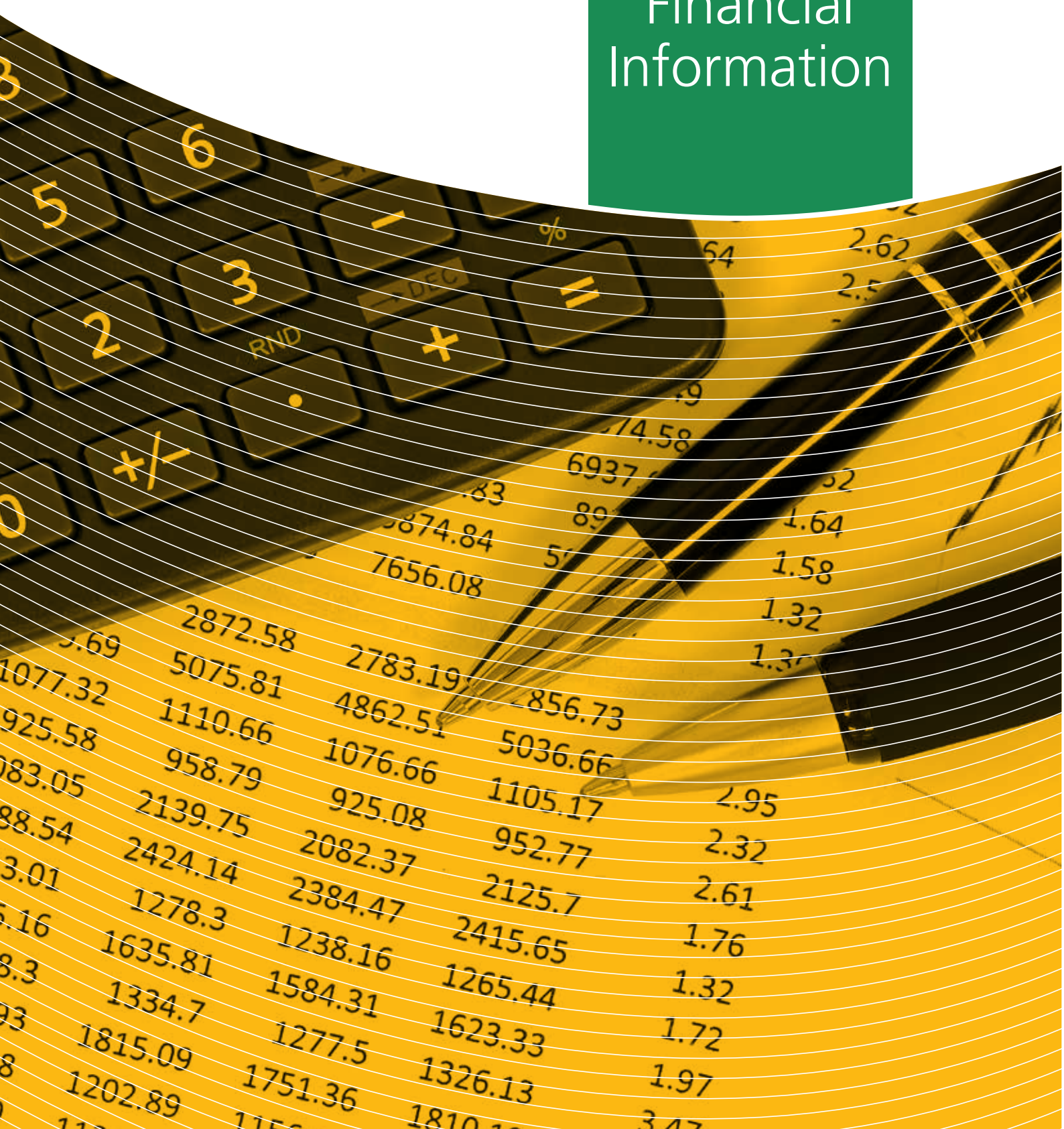
## Utilisation of consultants

Table 55: Report on consultant appointments using appropriated funds

Project title	Total number of consultants that worked on the project	Duration: Work days	Contract value in Rand
MIE	Ad hoc	-	0.00
ICAS	N/a	N/a	84 556.08
Gijima	Ad hoc	-	15 960.00
Deloitte	Ad hoc	-	4 952.16

# PART E

## Financial Information





# Report of the Auditor-General to Parliament on the National Regulator for Compulsory Specifications

## Report on the audit of Financial Statements

### Qualified opinion

I have audited the Financial Statements of the National Regulator for compulsory specifications set out on pages 82 to 139, which comprise the statement of financial position as at 31 March 2017, and the Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement and the Statement of Comparison of Budget Information with actual information for the year then ended, as well as the notes to the Financial Statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Regulator for Compulsory Specifications as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act, Act No.1 of 1999 (PFMA).

### Basis for qualified opinion

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

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.

Consequently, I was unable to determine whether any adjustment relating to non-exchange revenue from levies for compulsory specifications at R193 451 259 (2015/16: R154 590 878) and other receivables from non-exchange transactions amounting to R12 710 636 (2015/16: R13 040 063) in the Financial Statements, was necessary.

I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the Financial Statements section of my report.

I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

### Other matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited supplementary schedules

The supplementary information set out on pages 5 to 13 and 20 to 75 does not form part of the Financial Statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

### Responsibilities of Accounting Authority on the Financial Statements

The Accounting Authority is responsible for the preparation and fair presentation of the Financial Statements in accordance with GRAP and the requirements of the 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.

In preparing the Financial Statements, the Accounting Authority is responsible for assessing the National Regulator for Compulsory Specifications' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

### Auditor-General's responsibilities for the audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of my responsibilities for the audit of the Financial Statements is included in the annexure to the auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic goals presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice,

for the following selected strategic goals presented in the annual performance report of the public entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Strategic Goal 1: Develop, maintain and administer VCs and TRs	16
Strategic Goal 2: To maximise compliance with all specifications and technical regulations	17–18

I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Strategic Goal 1: Develop, maintain and administer VCs and TRs
- Strategic Goal 2: To maximise compliance with all specifications and technical regulations

#### Other matters

I draw attention to the matters below. I did not raise material findings in respect of these matters.

#### Achievement of planned targets

Refer to the annual performance report on page(s) 16–19 for information on the achievement of planned targets for the year and explanations provided for the achievement of the targets.

#### Adjustment of material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of *Strategic Goal 2: To maximise compliance with all specifications and technical regulations*. As management subsequently corrected all the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

### Report on audit of compliance with legislation

#### Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Annual Financial Statements, Performance Report and Annual Report

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 of revenue identified by the auditors in the submitted Financial Statements were not adequately corrected, which resulted in the Financial Statements receiving a qualified audit opinion.

## Revenue management

Effective and appropriate steps were not taken to collect all money due, as required by section 51(1)(b)(i) of the PFMA and/or treasury regulation 31.1.2(a) and (e).

## Expenditure management

Effective steps were not taken to prevent irregular expenditure amounting to R476 968 as disclosed in note 28 to the Annual Financial Statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.

## Other information

The public entity's accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Accounting Authority's report and the Audit and Risk Committee's report. The other information does not include the Financial Statements, the auditor's report thereon and those selected strategic goals presented in the annual performance report that have been specifically reported on in the auditor's report.

My opinion on the Financial Statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. No material misstatements have been noted on the other information presented.

## Internal control deficiencies

I considered internal controls relevant to my audit of the Financial Statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the findings on compliance with legislation included in this report.

## Leadership

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

## Financial and performance management

Management did not always implement effective controls in certain instances over daily and monthly processing and reconciling transactions to allow accurate and complete financial reports.

Auditor - General

3 August 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-General's responsibility for the audit**

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the Financial Statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

### **Financial Statements**

In addition to my responsibility for the audit of the Financial Statements as described in the auditor's report, I also:

- identify and assess the risks of material misstatement of the Financial Statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 public entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accounting Authority .
- conclude on the appropriateness of the Accounting Authority's use of the going concern basis of accounting in the preparation of the Financial Statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NRCS' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the Financial Statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated Financial Statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **Communication with those charged with governance**

I communicate with the Accounting Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the Accounting Authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

# Statement of Financial Position

as at 31 March 2017

	Notes	2017 R	2016 R
<b>Assets</b>			
<b>Current assets</b>			
		<b>256 392 302</b>	<b>221 178 015</b>
Cash and cash equivalents	2	229 037 438	199 846 747
Trade and other receivables from exchange transactions	3	14 644 228	8 291 205
Trade and other receivables from non-exchange transactions	4	12 710 636	13 040 063
<b>Non-current assets</b>			
		<b>24 436 265</b>	<b>29 697 498</b>
Deposits	5	328 266	328 266
Intangible assets	6	2 014 056	2 850 009
Property, plant and equipment	7	22 093 943	26 519 223
Investment property	8	-	-
<b>Total assets</b>			
		<b>280 828 567</b>	<b>250 875 513</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
		<b>36 645 207</b>	<b>38 189 638</b>
Trade and other payables from exchange transactions	9	17 300 179	18 783 003
Interest bearing borrowings	10	827 079	733 991
Employee benefit obligations	12	1 971 180	2 979 084
Provisions	11	16 546 769	15 693 560
<b>Non-current liabilities</b>			
		<b>32 623 261</b>	<b>28 823 514</b>
Interest bearing borrowings	10	931 973	1 759 052
Employee benefit obligations	12	31 691 288	27 064 462
<b>Total liabilities</b>			
		<b>69 268 468</b>	<b>67 013 152</b>
<b>Net assets</b>			
		<b>211 560 099</b>	<b>183 862 361</b>
Represented by:			
<b>Accumulated surpluses</b>			
		<b>211 560 099</b>	<b>183 862 361</b>
Amount approved by National Treasury for retention		183 862 361	182 246 292
Amount still subject to National Treasury approval to retain		27 697 738	1 616 069

# Statement of Financial Performance

for the year ended 31 March 2017

	Notes	2017 R	2016 R
<b>Revenue</b>		<b>332 490 842</b>	<b>293 344 909</b>
<b>Non-exchange revenue</b>		<b>281 700 386</b>	<b>248 121 853</b>
Levies for compulsory specifications		193 451 259	154 590 878
Transport annual registration fee		1 831 127	1 798 975
Government grants and core funding	25.4	86 418 000	91 732 000
<b>Exchange revenue</b>			
Revenue from services rendered	13	<b>50 790 456</b>	<b>45 223 056</b>
<b>Sundry income</b>	14	<b>5 204 501</b>	<b>2 188 204</b>
		<b>337 695 343</b>	<b>295 533 113</b>
<b>Expenses</b>		<b>326 360 639</b>	<b>308 310 807</b>
Advertising and marketing expenses		1 307 452	5 023 486
Amortisation of intangible assets	6	835 953	835 953
Contract services	15	8 650 347	8 608 946
Depreciation	7 & 8	3 435 903	2 446 636
Employment cost	16	258 177 099	237 057 787
Impairment	7 & 8	3 188 602	-
Office rentals and other operating lease expenses	17	12 411 127	12 351 607
Tests and sampling		3 263 463	4 897 834
Travel expenditure		15 617 554	16 427 813
Other expenditure	18	19 473 139	20 660 745
<b>Operating surplus/(deficit) for the year</b>		<b>11 334 704</b>	<b>(12 777 694)</b>
Interest received	19	16 622 729	14 393 763
Finance cost	20	(259 695)	-
<b>Surplus/(deficit) for the year</b>		<b>27 697 738</b>	<b>1 616 069</b>



# Statement of Changes in Net Assets

for the year ended 31 March 2017

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	<b>Accumulated surpluses R</b>
<b>Opening balance at 1 April 2015</b>	<b>182 246 292</b>
Surplus/(deficit) for the year	1 616 069
<b>Accumulated surplus at 31 March 2016</b>	<b>183 862 361</b>
Surplus/(deficit) for the year	27 697 738
<b>Accumulated surplus at 31 March 2017</b>	<b>211 560 099</b>

# Cash Flow Statement

for the year ended 31 March 2017

	Notes	2017 R	2016 R
<b>Cash flows from operating activities</b>		<b>32 172 761</b>	<b>5 580 405</b>
<b>Cash received from customers and government</b>		<b>331 305 061</b>	<b>294 956 393</b>
Cash received from services rendered		48 283 011	44 105 849
Cash received from non-exchange transactions		196 230 729	157 256 880
Cash received from government		86 418 000	91 732 000
Other cash received		373 321	1 861 664
<b>Cash paid to suppliers and employees</b>		<b>(315 495 334)</b>	<b>(303 769 751)</b>
Cash paid to suppliers		(61 790 366)	(66 502 791)
Cash paid to employees		(253 704 968)	(237 266 960)
<b>Cash generated from/(invested in) operations</b>	21	15 809 727	(8 813 358)
Interest received		16 622 729	14 393 763
Finance cost		(259 695)	-
<b>Cash flows from investing activities</b>		<b>(2 248 079)</b>	<b>(12 402 816)</b>
Purchase of property, plant and equipment		(2 248 079)	(12 402 816)
<b>Cash flows from financing activities</b>		<b>(733 991)</b>	<b>-</b>
Repayment of interest bearing borrowings		(733 991)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>29 190 691</b>	<b>(6 822 411)</b>
Cash and cash equivalents at beginning of the period		199 846 747	206 669 158
<b>Cash and cash equivalents at the end of the period</b>		<b>229 037 438</b>	<b>199 846 747</b>

# Statement of Comparison of Budget and Actual Amounts

for the year ended at 31 March 2017

Statement of Financial Performance	Notes	Approved budget R	Actual amount R	Difference to budget R
<b>Revenue</b>		<b>274 584 617</b>	<b>251 277 343</b>	<b>(23 307 274)</b>
<b>Non-exchange revenue</b>				
Levies for compulsory specifications	A	186 178 385	193 451 259	7 272 874
Transport annual registration fee	B	1 908 393	1 831 127	(77 266)
<b>Exchange revenue</b>				
Revenue from services rendered	C	48 296 585	50 790 456	2 493 871
Sundry income	D	38 201 254	5 204 501	(32 996 753)
<b>Expenditure</b>		<b>374 446 950</b>	<b>326 360 639</b>	<b>48 086 311</b>
Advertising and marketing expenditure	E	6 122 454	1 307 452	4 815 002
Amortisation of intangible assets	F	840 000	835 953	4 047
Contract services	G	14 346 135	8 650 347	5 695 788
Depreciation	F	3 588 204	3 435 903	152 301
Employment cost	H	274 452 883	258 177 099	16 275 784
Impairment	I	-	3 188 602	(3 188 602)
Office rentals and other operating lease expenses	J	13 962 660	12 411 127	1 551 533
Tests and sampling	K	8 834 427	3 263 463	5 570 964
Travel expenditure	L	19 982 227	15 617 554	4 364 673
Other expenditure	M	32 317 960	19 473 139	12 844 821
<b>Operating surplus/(deficit) for the year</b>		<b>(99 862 333)</b>	<b>(75 083 296)</b>	<b>24 779 037</b>
Government grants and core funding		86 418 000	86 418 000	-
<b>Operating surplus/(deficit) for the year</b>		<b>(13 444 333)</b>	<b>11 334 704</b>	<b>24 779 037</b>
Interest received	N	13 600 000	16 622 729	3 022 729
Finance cost	O	-	(259 695)	(259 695)
<b>Surplus/(deficit) for the year</b>		<b>155 667</b>	<b>27 697 738</b>	<b>27 542 071</b>

## Budget compared to the Statement of Financial Performance

The budget was prepared for the 12 months ended 31 March 2017 on the accrual basis. No adjustment budget was submitted to National Treasury.

### Material variances disclosed

A	Levies for compulsory specifications	Positive variance due to the impact of planned levy audits and outsourced levy investigations into non-submission and under-declaration of levies resulting in R10 million of undeclared levies collected during the 2016/17 financial year.
B	Transport annual registration fee	Marginally lower than budget due to a decline in sales of new vehicles during the 2016/17 financial year.
C	Revenue from services rendered	The actual revenue exceeded the budget due to the increase in the number of Letter of Authority (LoA) applications that were processed during the period and the clearing of the Electro-technical LoAs backlog from the prior years.
D	Sundry income	National Treasury's reduction in core funding resulted in NRCS having to supplement its budgeted expenditure out of its cash reserves. Other income was budgeted to offset the deficit budget, however budgeted expenditure was not realised resulting in a surplus. Hence cash reserves were not required.
E	Advertising and marketing expenditure	The planned public awareness campaigns did not take place as initially planned due to negotiations with the service provider, GCIS, which was finalised towards the end of the financial year. The awareness campaigns will be implemented in the 2017/18 financial year.
F	Depreciation and amortisation	Actual amounts were lower than budget due to acquisitions not materialising as per the 2016/17 Asset Acquisition Plan.
G	Contract services	Partly due to delays in finalising the Request for information (RFQ) for the modernisation of Enterprise Resource Plan. RFQ was deferred to the 2017/18 financial year. In addition the positive variance is also due to contracts under review.
H	Employment cost	The savings were due to the resignations at senior management level and not being immediately replaced and not all vacancies filled at year-end.
I	Impairment	Impairment was recognised on the Port Elizabeth office building due to fire damage.
J	Office rentals and other operating leases	The actual rental amounts were lower than the budgeted figures due to the delay in concluding the rental agreement for warehousing premises to store confiscated goods.
K	Tests and sampling	A contract disagreement with regards to full and partial testing with the SABS resulted in delays in finalising test results and concomitantly realise costs. In addition, the majority of the testing resources were redirected to clear the Letters of Authority (LoA) applications prior years backlog.
L	Travel expenditure	Positive variance was mainly due to implementation of the risk-based approach inspections and a reduction in Inspectors' oversight stay commensurate with National Treasury Cost Containment Measures.

M	Other expenditure	Computer license fees	Software licensing contracts were not renewed timeously. Costs will be realised in the 2017/18 financial year.
		Vehicle running costs	The initial acquisition plan was to procure additional vehicles through the National Treasury Transversal Contract. The acquisition of the new vehicles was placed on hold resulting in the savings.
		Municipal services	Positive variance due to the delay in finalising the lease agreement for warehousing facilities to store confiscated goods.
		Conferences	Savings due to using in-house facilities aligned to National Treasury Cost Containment Measures.
		Insurance	Savings due to higher excess payable options in the new contract.
		Storage: Seized Goods	Costs were not realised due to the delay in finalising the lease agreement for warehousing facilities to store confiscated goods.
		Legal costs	Budgeted for contingency costs to manage unplanned legal matters which did not materialise.
		Refreshments	Actively managing costs and implementing the National Treasury regulations resulted in savings.
		Stationery, printing matter	Lower demand, cost savings and carry-over of stock from the previous financial year resulted in the savings.
		Postal/Courier Services	Migrating to e-mailing of invoices and statements resulted in the savings.
N	Interest received	Prudent treasury function to maximise interest earned on cash resulted in R2.3 million earned against budget. In addition interest raised on arrear customer accounts contributed R667 964.	
O	Finance cost	Finance costs were not budgeted for in 2016/17 financial year.	

## Reconciliation between budget and statement of financial performance

	Notes	2017 R
<b>Net surplus per the statement of financial performance</b>		<b>27 697 738</b>
Adjusted for:		
Deficit on the scrapping of assets		26 134
Loss on property, plant and equipment due to theft		22 720
Impairment of property, plant and equipment		3 188 602
Increases in provisions		3 950 524
Irrecoverable debt written off		4 695
Revenue under recovered and surpluses not released to revenue		20 284 545
Under-expenditure		(55 019 291)
<b>Net surplus per approved budget</b>		<b>155 667</b>

# Notes to the Annual Financial Statements

## for the year ended at 31 March 2017

### 1. Significant accounting policies

#### 1.1 Basis of preparation

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 55 of the Public Finance Management 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. Otherwise 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 judgements 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 during 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, canceled 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 affected 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:

<b>Asset category</b>	<b>Average useful life</b>
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	5–10 years
• Trailers	10 years
Office equipment	
• Office furniture	10 years
• Office equipment	5–7 years
IT equipment	5–10 years
Buildings	30 years
Leasehold improvements	Term of the lease: 5–10 years
Laboratory equipment	10–15 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 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 cost 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 a 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 depends 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 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 payment amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of a 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 service 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 twelve 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 twelve 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 twelve months after the end of the reporting period in which the employees render the related service;
- bonus-, incentive- and performance-related payments payable within twelve 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, 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve 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 and
- 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 and
- 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 stated 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 timeframe, revenue is recognised on a straight-line basis over the specified timeframe, 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.

### Transport annual registration fees

Transport annual registration fees are collected in terms of the National Road Traffic Act, No. 93 of 1996 on all registered manufacturers, importers and builders (MIB) of motor vehicles.

Transport annual registration fees are levied annually on the date of first registration. An adjustment is made for annual registration fees that have not accrued to the NRCS yet.

### Government grants

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling 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 Rand, 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;
- (b) the State Tender Board Act, No. 86 of 1968 or any regulations made in terms of the Act and
- (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 have 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 relationship 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)(l) of the Income Tax Act, No. 58 of 1962.

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

Standards	Effective date
GRAP 20 Related party disclosure	None announced
GRAP 32 Service concession arrangements: Grantor	None announced
GRAP 34 Separate financial statements	None announced
GRAP 35 Consolidated financial statements	None announced
GRAP 36 Investments in associates and joint ventures	None announced
GRAP 37 Joint arrangements	None announced
GRAP 38 Disclosure of interests in other entities	None announced
GRAP 108 Statutory receivables	None announced
GRAP 109 Accounting by Principals and Agents	None announced
GRAP 110 Living and non-living resources	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
IGRAP 18 Interpretation of the standard of GRAP on recognition and derecognition of land	None announced

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

### 1.23 Standards of GRAP issued and effective

No new statements of GRAP became effective during the period under review.

## 2. Cash and cash equivalents

	2017 R	2016 R
Cash and cash equivalents comprise of the following:		
Cash on hand	15 233	15 639
Bank balances	20 522 022	9 290 201
Reserve Bank – Corporation for Public Deposits	208 500 183	190 540 907
Cash and cash equivalents as per cash flow statement	<b>229 037 438</b>	<b>199 846 747</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	2017 R	2016 R
Trade receivables		11 692 188	9 503 910
Less: Adjustment to fair value on initial recognition		(56 107)	(33 781)
Trade receivables at amortised cost		11 636 081	9 470 129
Less: Impairment of trade receivables	3.2	(3 635 037)	(3 537 728)
<b>Net trade receivables</b>		<b>8 001 044</b>	<b>5 932 401</b>
<b>Other receivables</b>		<b>6 643 184</b>	<b>2 358 804</b>
Employee advances		581 700	366 416
Insurance claim – Port Elizabeth building		3 947 582	-
Prepaid expenses		2 113 902	1 992 388
		<b>14 644 228</b>	<b>8 291 205</b>

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

	2017 R	2016 R
Opening balance	3 537 728	1 760 168
Amounts utilised – written off as irrecoverable	(4 695)	(2 486)
Increase in impairment provision	102 004	1 780 046
Closing balance	<b>3 635 037</b>	<b>3 537 728</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 and
- 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>2017</b>	8 001 044	5 487 836	1 311 425	409 348	149 330	643 105
<b>%</b>	100%	69%	16%	5%	2%	8%
<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%

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

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

	Notes	2017 R	2016 R
Trade receivables		16 025 343	16 918 781
Less: Adjustment to fair value on initial recognition		(75 768)	(20 863)
Trade receivables at amortised cost		15 949 575	16 897 918
Less: Impairment of trade receivables	4.2	(3 238 939)	(3 857 855)
Net trade receivables		<b>12 710 636</b>	<b>13 040 063</b>

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

	2017 R	2016 R
Opening balance	3 857 855	3 095 538
Amounts utilised – written off as irrecoverable	-	-
(Decrease)/ increase in impairment provision	(618 916)	762 317
Closing balance	<b>3 238 939</b>	<b>3 857 855</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 and
- 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>2017</b>	12 710 636	6 859 772	4 224 417	479 449	138 153	1 008 845
%	100%	54%	33%	4%	1%	8%
<b>2016</b>	13 040 063	8 345 539	686 321	3 618 959	130 160	259 084
%	100%	64%	5%	28%	1%	2%

## 5. Deposits

	2017 R	2016 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

	Computer software purchased R	Total R
<b>2017</b>		
Opening carrying amount	2 850 009	2 850 009
Gross carrying amount	4 179 766	4 179 766
Accumulated amortisation	(1 329 757)	(1 329 757)
Amortisation	(835 953)	(835 953)
<b>Closing carrying amount</b>	<b>2 014 056</b>	<b>2 014 056</b>
Gross carrying amount	4 179 766	4 179 766
Accumulated amortisation	(2 165 710)	(2 165 710)



<b>2016</b>	<b>Computer software purchased R</b>	<b>Total R</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)
Amortisation	(835 953)	(835 953)
<b>Closing carrying amount</b>	<b>2 850 009</b>	<b>2 850 009</b>
Gross carrying amount	4 179 766	4 179 766
Accumulated amortisation	(1 329 757)	(1 329 757)

## 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>2017</b>						
Opening carrying amount	6 077 971	7 146 923	1 339 272	6 467 329	5 487 728	26 519 223
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)
Additions	-	2 183 179	64 900	-	-	2 248 079
Depreciation	-	(2 067 536)	(316 400)	(119 369)	(932 598)	(3 435 903)
Impairment <sup>1</sup>	-	-	-	(3 188 602)	-	(3 188 602)
Derecognised at carrying amounts	-	(35 831)	(13 023)	-	-	(48 854)
Transfers	(5 382 887)	-	5 382 887	-	-	-
<b>Closing carrying amount</b>	<b>695 084</b>	<b>7 226 735</b>	<b>6 457 636</b>	<b>3 159 358</b>	<b>4 555 130</b>	<b>22 093 943</b>
Gross carrying amount	695 084	17 387 629	9 455 078	8 766 291	6 270 348	42 574 430
Accumulated depreciation and impairment losses	-	(10 160 894)	(2 997 442)	(5 606 933)	(1 715 218)	(20 480 487)

<sup>1</sup> The main building on the property located at Erf 2901 Mount Road, Port Elizabeth caught fire on 24 July 2016. The insurers determined that 49% of the building was damaged. The property was impaired with R3 188 602 due to this event and an insurance claim of R3 947 582 was received subsequent to the reporting period (refer to note 3.1). The NRCS intends to utilise the insurance claim to restore and renovate the office building, but the process to appoint a service provider to restore and renovate the building has not begun yet.

<b>2016</b>	<b>Work-in-progress R</b>	<b>Furniture and office equipment R</b>	<b>Laboratory equipment R</b>	<b>Land, buildings and operating lease improvements R</b>	<b>Vehicles R</b>	<b>Total R</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	-	(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)

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

	<b>Furniture and office equipment</b>	
	<b>2017 R</b>	<b>2016 R</b>
Gross carrying amount	2 493 043	2 493 043
Accumulated depreciation	(540 841)	(42 232)
<b>Closing carrying amount</b>	<b>1 952 202</b>	<b>2 450 811</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

	2017 R	2016 R
Opening carrying amount	-	6 337 386
Gross carrying amount	-	8 000 000
Accumulated depreciation and impairment losses	-	(1 662 614)
Depreciation	-	(94 863)
Transfers	-	(6 242 523)
<b>Closing carrying amount</b>	<b>-</b>	<b>-</b>
Gross carrying amount	-	-
Accumulated depreciation and impairment losses	-	-

Investment property comprised 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 prior reporting period, 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

	2017 R	2016 R
Trade payables	4 494 393	5 802 586
Other payables	272 199	425 734
Salary related accruals	5 600 082	5 649 409
Income received in advance	4 186 207	2 977 856
Trade receivables with credit balances <sup>1</sup>	228 093	174 161
Deferred operating lease accrual – current portion	2 519 205	3 753 257
	<b>17 300 179</b>	<b>18 783 003</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

	2017 R	2016 R
Total future minimum finance lease payments	1 987 311	2 980 967
- Payable not later than one year	993 656	993 656
- Payable between two and five years	993 655	1 987 311
Less: Unpaid future finance charges	(228 259)	(487 924)
Present value of future minimum finance lease payments	1 759 052	2 493 043
- Payable not later than one year	827 079	733 991
- Payable between two and five years	931 973	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 R1 952 202 (2016:R2 450 811) (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 maybe 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.

	2017 R	2016 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)
Balance as at the end of the year	-	-

## 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.

	2017 R	2016 R
Balance as at the beginning of the year	15 693 560	13 975 822
Amount utilised in the current year	(1 078 257)	(1 154 912)
Provision raised during the year	1 931 466	2 872 650
Balance as at the end of the year	16 546 769	15 693 560

## 12. Employee benefit obligations

2017	Post- retirement medical aid R	Long service leave awards R	Total R
Opening balance	9 359 148	20 684 398	30 043 546
Current service cost	938 705	2 383 510	3 322 215
Interest cost	230 892	1 892 027	2 122 919
Actuarial (profit) / loss	(1 390 603)	1 963 482	572 879
Benefits paid	(230 880)	(2 168 211)	(2 399 091)
<b>Closing balance</b>	<b>8 907 262</b>	<b>24 755 206</b>	<b>33 662 468</b>
Current portion of employee benefit obligations	620 799	1 350 381	1 971 180
Non-current portion of employee benefit obligations	8 286 463	23 404 825	31 691 288

2016	Post- retirement medical aid R	Long service leave awards R	Total R
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

## 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 and
- 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 2017.

Key assumptions used (expressed as weighted averages):

	2017	2016
Discount rate per annum	9.86%	10.03%
Medical aid inflation	6.89%	7.43%
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 2017 when the medical aid inflation rate is increased and decreased by 1%.

	Liability R	Change in liability %
+1%	10 094 290	13.33%
Central	8 907 262	
-1%	7 913 860	-11.15%

## 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 previous reporting period had the impact that employees that joined the SABS or NRCS after 1 March 2008 are 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):

	2017	2016
Discount rate per annum	8.78%	9.15%
Salary inflation	6.78%	7.71%

There are no plan assets for this liability.

### Sensitivity analysis

The effects on the central basis liability results for 2017 when the discount rate is increased and decreased by 1%.

#### Sensitivity to changes in discount rate

	Liability R	Change in liability %
+1%	23 822 421	-3.77%
Central	24 755 206	
-1%	25 803 808	4.24%

## 12.3 Historical information relating to employee benefit obligations

	2017 R	2016 R	2015 R	2014 R	2013 R
Post-retirement medical aid liability	8 907 262	9 359 148	9 301 236	9 141 780	10 121 814
Experience adjustments	(1 390 603)	(911 724)	(865 905)	(1 887 410)	1 312 485
Long service leave award liability	24 755 206	20 684 398	14 485 390	12 044 833	11 354 901
Experience adjustments	1 963 482	6 189 774	2 206 156	90 534	816 890



### 13. Exchange revenue

	2017 R	2016 R
Tests and services	9 395 175	7 806 931
Export certification	6 125 766	6 122 371
Vehicle homologation	5 795 850	6 488 555
Letter of authority (LoA)	27 603 571	23 033 348
Electrical compliance certificate	589 376	671 999
Gaming: Letter of compliance	1 280 718	1 099 852
	<b>50 790 456</b>	<b>45 223 056</b>

### 14. Sundry income

	2017 R	2016 R
Surplus on transfer of functions from SABS (refer to note 25.1)	872 260	342 063
SETA refunds	109 973	300 409
Insurance claim on Port Elizabeth building	3 947 582	-
Refunds for expenses incurred	204 887	1 071 610
Realised net foreign exchange profit	11 338	1 115
Rental income	58 461	473 007
	<b>5 204 501</b>	<b>2 188 204</b>

### 15. Contract services

	2017 R	2016 R
Internal audit services	729 501	535 501
Levy audit services	1 776 230	-
IT services	4 687 515	5 191 900
Accreditation	451 200	427 265
Temporary placements	-	17 516
HR and labour-related costs	122 679	676 171
Special investigations	294 120	847 222
National Building Regulations Review Board representation	53 921	235 966
Travel agency commission	381 519	376 741
Other contractual services	153 662	300 664
	<b>8 650 347</b>	<b>8 608 946</b>

## 16. Employment cost

	Notes	2017 R	2016 R
Salaries and wages		208 450 771	185 162 008
Medical aid and other employment benefits		9 936 895	8 735 419
Pension costs		18 206 902	16 854 483
Training costs		3 677 052	4 095 808
Long-service awards		-	162 500
Non-executive emoluments	24.5	271 861	205 014
Executive management and other key management emoluments	24.5	14 014 696	15 585 635
		<b>254 558 177</b>	<b>230 800 867</b>
Post-employment healthcare benefits	12	(451 886)	57 912
Long service leave awards	12	4 070 808	6 199 008
		<b>258 177 099</b>	<b>237 057 787</b>

## 17. Office rentals and other operating lease expenses

	2017 R	2016 R
Rentals in respect of operating leases (minimum lease payments)		
- Land and buildings	12 188 379	12 016 730
- Equipment	222 748	334 877
	<b>12 411 127</b>	<b>12 351 607</b>

## 18. Other expenditure

	2017 R	2016 R
Included in other expenditure is the following:		
Auditors' remuneration	2 997 397	3 757 212
- Current year	156 696	324 754
- Prior year	2 840 701	3 432 458
Irrecoverable debts	(516 913)	2 545 627
- Irrecoverable debts written off	4 695	22 387
- Irrecoverable debts recovered	-	(16 638)
- Increase/(decrease) in impairment of trade and other receivables	(521 608)	2 539 878
Casual labour	65 550	110 196
Consumables	138 657	187 620
Entertainment	-	4 937
Foreign exchange losses	11 463	142 816
Insurance	825 659	535 909
Legal costs	2 762 486	792 133
Municipal costs	3 032 705	2 451 152
Office and administration expenses	4 910 270	6 108 090
Repairs and maintenance	511 968	677 052
Software costs	2 360 282	1 501 838
Staff recruitment costs	98 804	58 850
Staff welfare costs	1 634 432	780 425
Storage of seized goods	289 106	686 827
Vehicle costs	302 419	285 631
Loss on property, plant and equipment due to theft	22 720	1 100
Loss on derecognition of property, plant and equipment	26 134	33 330
	<b>19 473 139</b>	<b>20 660 745</b>

## 19. Interest received

	2017 R	2016 R
Cash equivalents – financial assets at amortised cost	15 954 765	13 852 932
Trade debtors	667 964	540 831
	<b>16 622 729</b>	<b>14 393 763</b>

## 20. Finance cost

	2017 R	2016 R
Finance lease charges	259 695	-
	<b>259 695</b>	<b>-</b>

## 21. Notes to the statements of cash flows

	2017 R	2016 R
<b>Reconciliation of net surplus to cash generated from operations</b>		
<b>Operating surplus/(deficit) for the period</b>	<b>11 334 704</b>	<b>(12 777 694)</b>
<b>Adjustments for non-cash items:</b>	<b>11 464 531</b>	<b>5 670 110</b>
Surplus on transfer of functions from the SABS	(872 260)	(342 063)
Fair value building rented from the SABS	872 260	342 063
Depreciation on property, plant and equipment	3 435 903	2 351 773
Impairment of property, plant and equipment	3 188 602	-
Amortisation of intangible assets	835 953	835 953
Depreciation on investment property	-	94 863
Irrecoverable debts written off	4 695	22 387
Loss on property, plant and equipment due to theft	22 720	1 100
Loss on derecognition of property, plant and equipment	26 134	33 330
Carrying amount of assets disposed	26 134	33 330
Proceeds of disposal	-	-
Provision for employee benefit obligations	6 018 013	8 782 611
Employee benefits paid from provision	(2 399 091)	(2 525 691)
(Decrease)/increase in provisions	853 209	(6 466 093)
Increase in impairment of trade and other receivables	(521 607)	2 539 877
<b>Operating surplus/(deficit) before working capital changes</b>	<b>22 799 235</b>	<b>(7 107 584)</b>
<b>Changes in working capital</b>	<b>(6 989 508)</b>	<b>(1 705 774)</b>
(Increase)/Decrease in trade and other receivables from exchange transactions	(6 455 027)	(1 117 207)
(Increase)/Decrease in trade and other receivables from non-exchange transactions	948 343	867 027
(Decrease)/Increase in trade and other payables	(1 482 824)	(1 455 594)
<b>Cash flows from operating activities</b>	<b>15 809 727</b>	<b>(8 813 358)</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) and
- 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

During the reporting period the basis of proportional allocation of core funding was revised from the previous methodology.

Previously core funding was allocated on an internal classification of funding required in certain segments. It was decided that core funding should be allocated on the basis of actual deficits per segment.

The allocation of overheads is still based on the revenue realised per segment as a percentage of the the organisation's revenue, the only change between the current reporting period of the previous one is that the organisational revenue no longer includes the allocation of core funding per segment.

The segment report for the current reporting period is presented based on the revised basis and the original basis.

	2017 R'000 (Revised basis)						
	Automotive	CMM	Electro-technical	FAI	LM	Unallocated	Total
<b>Revenue</b>							
<b>Non-exchange revenue</b>	<b>58 455</b>	<b>25 805</b>	<b>70 561</b>	<b>30 310</b>	-	<b>10 151</b>	<b>195 282</b>
Levies for compulsory specifications	56 624	25 805	70 561	30 310	-	10 151	193 451
Transport annual registration fee	1 831	-	-	-	-	-	1 831
<b>Exchange revenue</b>	<b>10 284</b>	<b>1 742</b>	<b>23 198</b>	<b>7 275</b>	<b>8 263</b>	<b>28</b>	<b>50 790</b>
<b>Sundry income</b>	<b>-</b>	<b>5</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>5 080</b>	<b>5 205</b>
<b>Total revenue</b>	<b>68 739</b>	<b>27 552</b>	<b>93 879</b>	<b>37 585</b>	<b>8 263</b>	<b>15 259</b>	<b>251 277</b>
<b>Expenses</b>	<b>39 826</b>	<b>27 482</b>	<b>42 756</b>	<b>44 195</b>	<b>54 563</b>	<b>117 538</b>	<b>326 360</b>
Employment cost	37 745	24 188	36 915	39 311	50 058	69 960	258 177
Depreciation and amortisation	74	31	48	177	1 015	2 928	4 273
Other expenses	2 007	3 263	5 793	4 707	3 490	44 650	63 910
Interest received	-	-	-	-	-	16 623	16 623
Finance cost	-	-	-	-	-	(260)	(260)
Government grants and core funding				6 610	46 300	33 508	86 418
<b>Allocation of overheads</b>	<b>(23 621)</b>	<b>(9 468)</b>	<b>(32 259)</b>	<b>(12 915)</b>	<b>(2 839)</b>	<b>81 102</b>	<b>-</b>
<b>Surplus/(deficit) for the period</b>	<b>5 292</b>	<b>(9 398)</b>	<b>18 864</b>	<b>(12 915)</b>	<b>(2 839)</b>	<b>28 694</b>	<b>27 698</b>

	2017 R'000 (Original basis)						
	Automotive	CMM	Electro-technical	FAI	LM	Unallocated	Total
<b>Revenue</b>							
<b>Non-exchange revenue</b>	<b>58 455</b>	<b>25 805</b>	<b>70 561</b>	<b>37 899</b>	<b>30 316</b>	<b>58 664</b>	<b>281 700</b>
Levies for compulsory specifications	56 624	25 805	70 561	30 310	-	10 151	193 451
Transport annual registration fee	1 831	-	-	-	-	-	1 831
Government grants and core funding	-	-	-	7 589	30 316	48 513	86 418
<b>Exchange revenue</b>	<b>10 284</b>	<b>1 742</b>	<b>23 198</b>	<b>7 275</b>	<b>8 263</b>	<b>28</b>	<b>50 790</b>
<b>Sundry income</b>	<b>-</b>	<b>5</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>5 080</b>	<b>5 205</b>
<b>Total revenue</b>	<b>68 739</b>	<b>27 552</b>	<b>93 879</b>	<b>45 174</b>	<b>38 579</b>	<b>63 772</b>	<b>337 695</b>
<b>Expenses</b>	<b>39 826</b>	<b>27 482</b>	<b>42 756</b>	<b>44 195</b>	<b>54 563</b>	<b>117 538</b>	<b>326 360</b>
Employment cost	37 745	24 188	36 915	39 311	50 058	69 960	258 177
Depreciation and amortisation	74	31	48	177	1 015	2 928	4 273
Other expenses	2 007	3 263	5 793	4 707	3 490	44 650	63 910
Interest received	-	-	-	-	-	16 623	16 623
Finance cost	-	-	-	-	-	(260)	(260)
<b>Allocation of overheads</b>	<b>(16 587)</b>	<b>(6 648)</b>	<b>(22 653)</b>	<b>(10 901)</b>	<b>(9 309)</b>	<b>66 098</b>	<b>-</b>
<b>Surplus/(deficit) for the period</b>	<b>12 326</b>	<b>(6 578)</b>	<b>28 470</b>	<b>(9 922)</b>	<b>(25 293)</b>	<b>28 695</b>	<b>27 698</b>

**2016**  
**R'000 (Original basis)**

	<b>Automotive</b>	<b>CMM</b>	<b>Electro-technical</b>	<b>FAI</b>	<b>LM</b>	<b>Unallocated</b>	<b>Total</b>
<b>Revenue</b>							
<b>Non-exchange revenue</b>	<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
<b>Exchange revenue</b>	<b>9 758</b>	<b>429</b>	<b>20 270</b>	<b>7 031</b>	<b>7 726</b>	<b>9</b>	<b>45 223</b>
<b>Sundry income</b>	<b>-</b>	<b>-</b>	<b>998</b>	<b>-</b>	<b>-</b>	<b>1 190</b>	<b>2 188</b>
<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>



## 23. Commitments

	2017 R	2016 R
Commitments for the acquisition of property, plant and equipment and intangible assets (contracted)	1 370 869	494 508
Commitments for operating expenditure at year end	6 711 462	8 504 305

### Operating lease commitments – the company as lessee

The future minimum payments payable under non-cancellable operating leases are as follows:

#### Buildings

- Payable within one year
- Payable between two and five years

10 932 975	10 579 712
24 374 212	27 222 948

The lease agreement with the SABS 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 6% 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 2017 and 31 March 2016.

## 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:

	<b>2017 R</b>	<b>2016 R</b>
	<b>Floating rate</b>	<b>Floating rate</b>
Cash and cash equivalents	229 037 438	199 846 747
% of total bank balances	100%	100%

If interest rates on 31 March 2017 had been 100 basis points (1%) higher or lower (and all other variables remained constant), the surplus for the period would have been R2 290 374 (2016: R1 998 467) 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:

<b>2017</b>	<b>Within 1 month R</b>	<b>1-3 months R</b>	<b>3-12 months R</b>	<b>1-5 years R</b>	<b>Total R</b>
<b>Financial liabilities</b>					
Trade and other payables	(4 766 592)	(4 928 379)	(4 857 910)	(2 747 298)	(17 300 179)
Interest bearing borrowings	(82 805)	(248 415)	(662 436)	(993 655)	(1 987 311)
<b>2016</b>	<b>Within 1 month R</b>	<b>1-3 months R</b>	<b>3-12 months R</b>	<b>1-5 years R</b>	<b>Total R</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)

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 well-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.

The NRCS did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for at the reporting date. 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

The SABS and the NRCS have 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:

	2017 R	2016 R
Fair value of non-exchange transaction as per rental agreement	872 260	342 063
<b>Net assets transferred</b>	<b>872 260</b>	<b>342 063</b>

## 25.2 Purchases from related parties

	Purchases R	Balance outstanding R
<b>2017</b>		
<b>National government business enterprises</b>		
South African Bureau of Standards (SABS)*	12 397 336	649 652
<b>2016</b>		
<b>National government business enterprises</b>		
South African Bureau of Standards (SABS)*	14 213 948	2 239 071

\* Included in this amount is an amount of Rnil (2016: R1 480 283) relating to recovery of the 50% portion and escalation of the SABS rental. (Refer to note 25.1).

## 25.3 Exchange revenue from related parties

	Sales R	Balance outstanding R
<b>2017</b>		
South African Bureau of Standards (SABS)	65 617	20 193
<b>2016</b>		
South African Bureau of Standards (SABS)	467 222	436 791

## 25.4 Non-exchange revenue from related parties

	2017 R	2016 R
Transfer payments received from <b>the dti</b>	86 418 000	91 732 000

## 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:

2017	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
<b>Non-executive: Audit and Risk Committee members</b>				
SAH Kajee (Chairperson)		136 272	-	136 272
AD Cowell		134 715	874	135 589
M Ramatla	A	-	-	-
<b>Total non-executive remuneration</b>		<b>270 987</b>	<b>874</b>	<b>271 861</b>

2016	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
<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>

A. the dti representatives are not remunerated by the NRCS.

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

2017	Notes	Basic salary R	Retirement and medical aid R	Other allowances R	Total R
<b>Executive</b>					
A Moodley – CEO	A, B1	1 232 481	-	52 800	1 285 281
E Mamadise – Acting CEO	A, B2	423 403	38 261	342 877	804 541
MC Thibela – Deputy CEO	C1	979 577	93 932	13 500	1 087 009
MC Thibela – Deputy CEO (settlement)	C2			2 267 282	2 267 282
R Mathura – CFO	D1	877 945	114 285	57 204	1 049 434
E Cornelius – Acting CFO	D2	235 018	26 197	30 296	291 511
<b>Total executive remuneration</b>		<b>3 748 424</b>	<b>272 675</b>	<b>2 763 959</b>	<b>6 785 058</b>
<b>Key management</b>					
A Hirachund	E	369 339	55 951	207 469	632 759
MN Katz		1 088 838	167 363	7 200	1 263 401
B Khanyile		1 151 789	146 770	7 200	1 305 759
MT Madzivhe		1 150 425	148 134	7 200	1 305 759
PN Mazibuko	F	376 401	48 889	254 669	679 959
P Mazibuko		906 301	93 755	5 400	1 005 456
MS Mkhabela	G	893 628	86 508	56 409	1 036 545
<b>Total key management remuneration</b>		<b>5 936 721</b>	<b>747 370</b>	<b>545 547</b>	<b>7 229 638</b>
<b>Total remuneration</b>		<b>9 685 145</b>	<b>1 020 045</b>	<b>3 309 506</b>	<b>14 014 696</b>

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

2016	Notes	Basic salary R	Retirement and medical aid R	Other allowances R	Total R
<b>Executive</b>					
A Moodley – CEO	A	1 814 421	-	79 200	1 893 621
MC Thibela – Deputy CEO		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	I	400 515	44 888	1 800	447 203
FLR Fourie	J	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	H	653 902	64 683	4 050	722 635
MS Mkhabela		911 356	87 984	15 672	1 015 012
T Magolego	K	758 030	129 953	66 476	954 459
R Mbukwane	K	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>

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

B1. Mr Moodley resigned from the NRCS effective 30 November 2016. His allowances include leave payout

B2. Mr Mamadise was seconded **by dti** as Acting CEO for NRCS from 17 October 2016

C1. Mr Thibela ceased employment by mutual separation with the NRCS on 8 December 2016

C2. Mr Thibela's mutual separation settlement amount includes his severance package and leave payout

D1. Ms Mathura resigned effective 31 December 2016

D2. Ms Cornelius commenced as Acting CFO from 1 January 2017

E. Mrs Hirachund resigned effective 31 July 2016 and allowances include leave payout

F. Ms Mazibuko resigned effective 31 July 2016 and allowances include leave payout

G. Mr Mkhabela resigned effective 28 February 2017 and allowances include leave payout

H. Mrs Mazibuko appointed on 1 July 2015

I. Mr Carstens retired effective 30 June 2015

J. Mr Fourie retired effective 31 August 2015

K. 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 2016 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 was claiming the cost price in US Dollars from the NRCS. The NRCS has reached a settlement with the claimant, but party and party costs have not yet been determined.

## 27. Fruitless and wasteful expenditure

### 27.1 Fruitless and wasteful expenditure

	2017 R	2016 R
<b>Opening balance</b>	<b>472 896</b>	<b>451 706</b>
- Interest paid	66 923	45 733
- 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>-</b>	<b>53 409</b>
- Interest paid	-	53 409
<b>Fruitless and wasteful expenditure condoned during the reporting period</b>	<b>-</b>	<b>(32 219)</b>
<b>Closing balance</b>	<b>472 896</b>	<b>472 896</b>

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

### 27.2 Losses through criminal conduct

	2017 R	2016 R
Equipment stolen derecognised at carrying value	22 720	1 100

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 R476 968 (2016: R109 133).

	2017 R	2016 R
<b>Opening balance</b>	<b>202 293</b>	<b>93 160</b>
<b>Irregular expenditure – current year</b>	<b>476 968</b>	<b>109 133</b>
- Payments effected on expired contracts	-	-
- Payments contravening Treasury Regulations	476 968	109 133
- Payments effected contravening the NRCS's delegation of authority	-	-
<b>Amounts condoned during the year</b>	<b>-</b>	<b>-</b>
<b>Closing balance</b>	<b>679 261</b>	<b>202 293</b>
- Payments effected on expired contracts	93 160	93 160
- Payments contravening Treasury Regulations	586 101	109 133
- Payments effected contravening the NRCS's delegation of authority	-	-

## 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:

	2017 R
Decrease in depreciation – property, plant and equipment	142 990

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

The following expenses have been re-classified during the reporting period:

	2016 (previously reported) R	Re- classification R	2016 R
<b>Statement of Financial Position</b>			
<b>Expenses</b>			
Employment cost	239 842 830	(2 785 043)	237 057 787
Travel expenditure	13 642 770	2 785 043	16 427 813

### 31. Approval of Annual Financial Statements

The audited annual Financial Statements were approved by the NRCS Accounting Authority and submitted for audit on 30 May 2017.







**HEAD OFFICE**

SABS Campus 1  
Dr Lategan Road  
Groenkloof, Pretoria  
PO Box: NRCS  
Private Bag X25, Brooklyn 0075  
Tel: +27 12 482 8700

**PORT ELIZABETH**

Willow Park Units 25 & 26  
Willow Road Business Park  
Willow Road, Fairview  
Tel: +27 41 398 6900  
Fax: +27 41 398 6944

**DURBAN**

Unit 13  
Cedar Park Industrial Estate  
3 Quarry Park Place, Briardene  
Tel: +27 31 533 6700  
Fax: +27 31 533 6729

**CAPE TOWN**

14 Railway Road  
Montagu Gardens  
Tel: +27 21 526 3400  
Fax: +27 21 526 3452

**BLOEMFONTEIN**

34 Victoria Road  
Willows, Bloemfontein  
Tel: +27 51 447 4408  
Fax: +27 51 430 3485