NRCS national regulator for compulsory specifications


# ANNUAL REPORT 2009 2010

NRCS

national regulator for
compulsory specifications

# contents

# Overview

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## NRCS vision

Is to be a nationally, regionally and internationally recognised, respected and preferred regulatory agency.

## NRCS mission

Is to administer and maintain compulsory specifications and technical regulations in the interest of public safety, health, environmental protection and fair trade.

## NRCS values

We conduct our business in a prudent and professional manner, upholding our independence as a regulator, complying with all statutory requirements and ensuring that our services add value to our stakeholders. In carrying out our business, we are guided by the NRCS values of:

### Trustworthiness

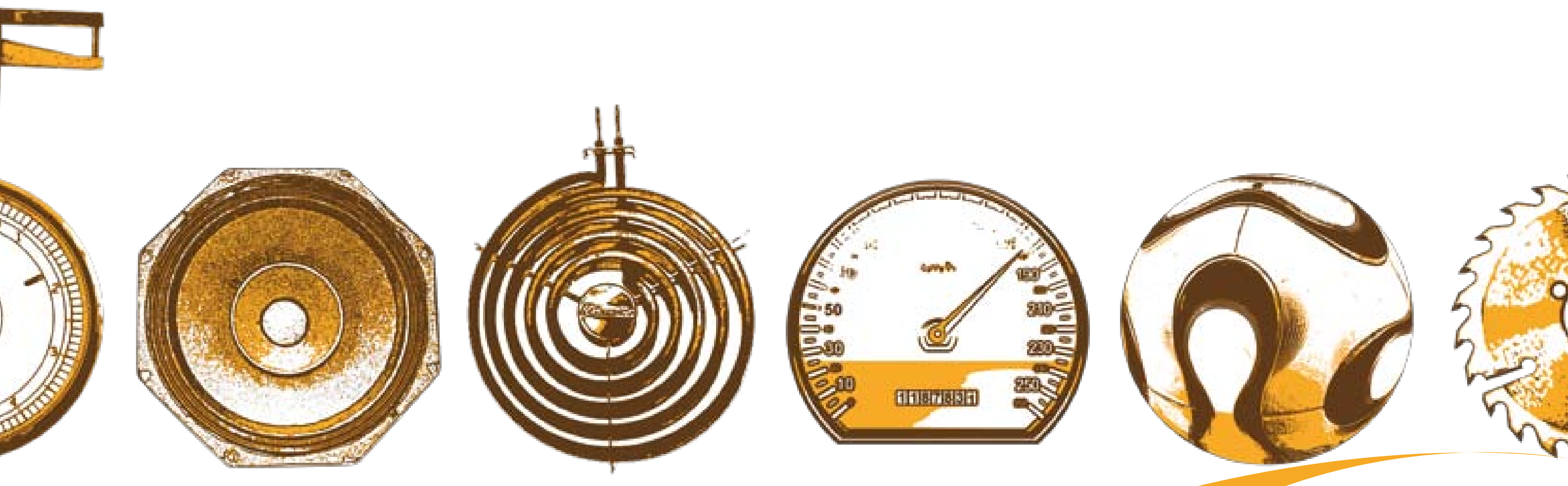
We deliver competent, reliable service based on trust and honesty.

### Accountability

We assign clear areas of authority, make decisions at the appropriate level and report to our stakeholders on the effectiveness and impact of our actions.

### Transparency

We conduct our operations and business with all stakeholders in a clear, open and responsible manner.



# Mandate

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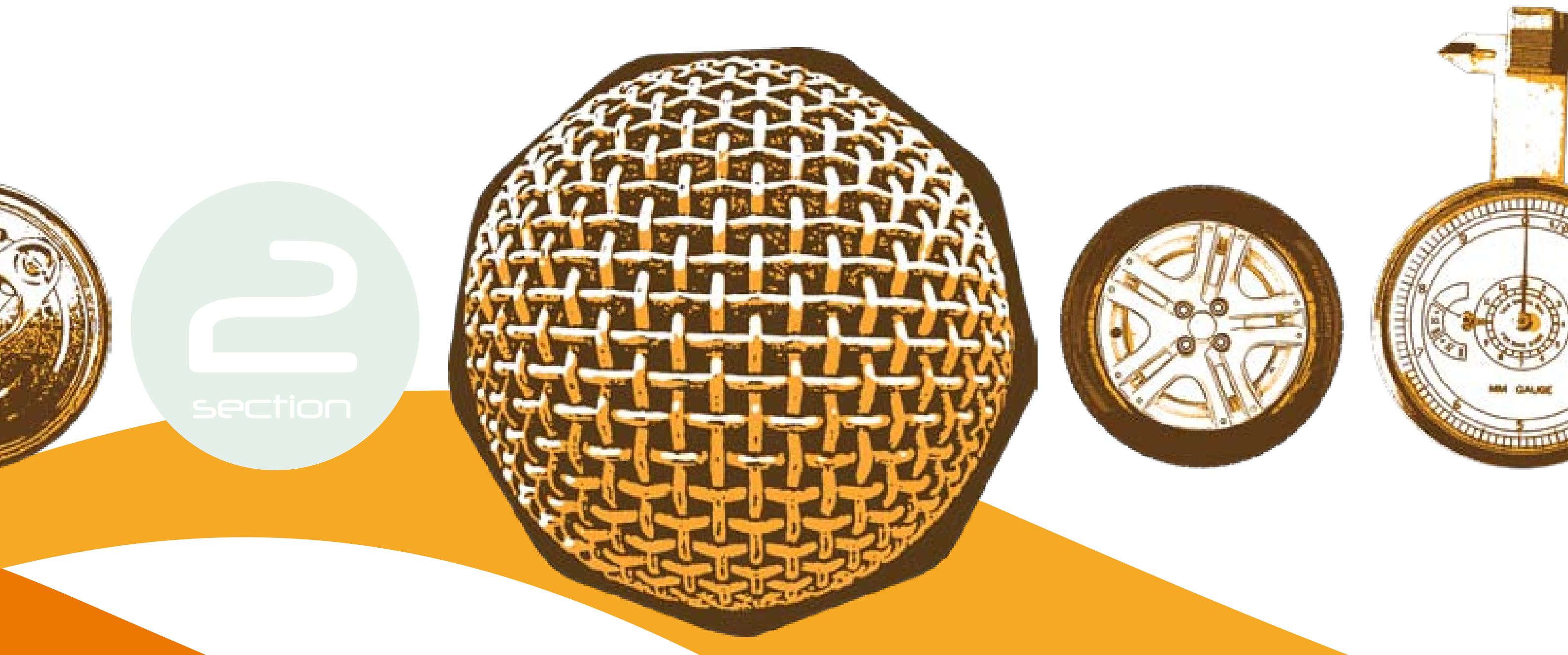
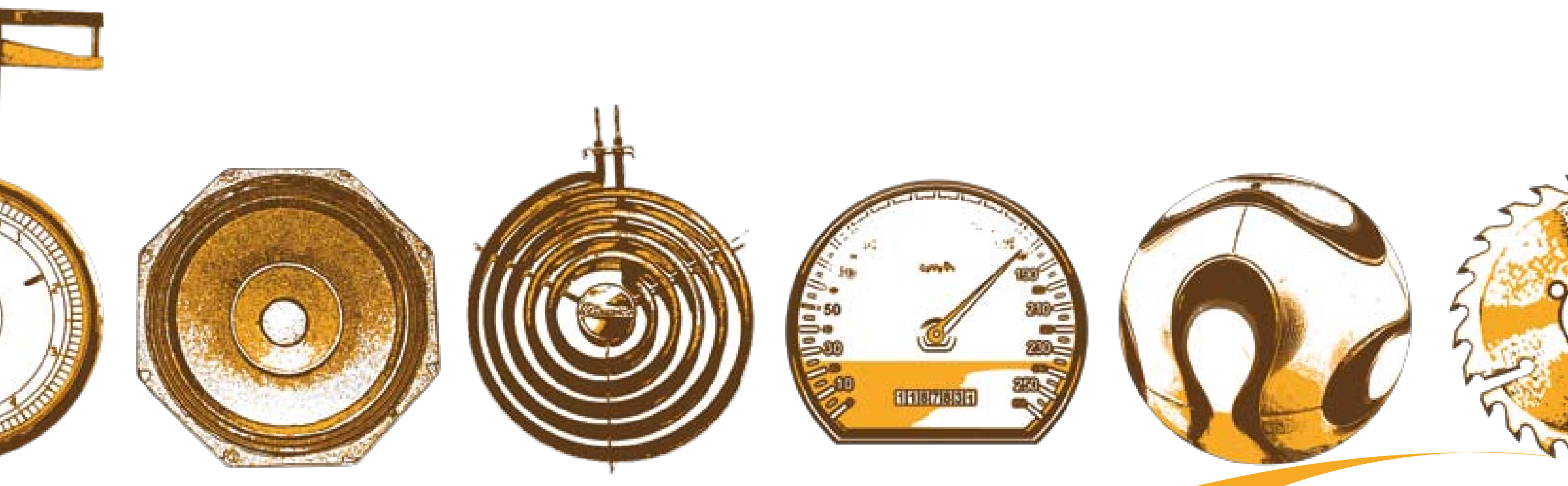


## Who we are

The National Regulator for Compulsory Specifications (NRCS) protects consumers and promotes South Africa's competitiveness by ensuring that regulated products manufactured and sold in the marketplace meet minimum safety, health and fair trade requirements.

We do this by administering and enforcing compulsory specifications and technical regulations established in terms of three Acts: the National Regulator for Compulsory Specifications Act (Act No. 5 of 2008), the Trade Metrology Act (Act No. 77 of 1973) and the National Building Regulations and Standards Act (Act No. 103 of 1977).



Performing our work on behalf of the Department of Trade and Industry (the **dti**), we regulate products in the following industries:

## Automotive

Safety of vehicles and vehicle components such as head lights, bulbs, brakes, brake fluid and tyres. The industry includes Manufacturers, Importers and Builders (MIBs) that are covered by the compulsory requirements.

## Electronic and electrical apparatus (Electrotechnical)

Safety of electrical/ electronic apparatus (such as television sets, electric light fittings, power suppliers, microwave ovens, computers, power tools and laboratory equipment) and electrical components (such as adaptors, circuit breakers, cables, globes, earth leakage protection, etc.).

## Chemicals

Disinfectants, detergents and sanitation products.

## Mechanical

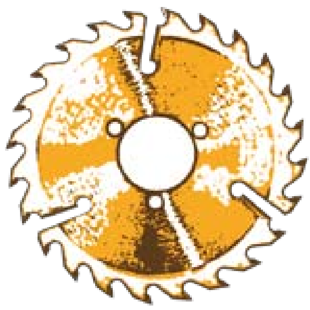
Personal protective equipment, firearms, shooting ranges and flame producing devices (such as cigarette lighters and paraffin stoves).

## Building and construction materials

Cement and paint, as well as the administration of the National Building Regulations and related standards.

## Food and associated industries

Frozen, fresh and canned fish and fishery products, and canned meat.



## Environmental protection

Plastic bags, emissions and energy efficiency.

## Legal metrology

Type approval, verification, inspection of measuring instruments and pre-packed goods, designation of private verification laboratories, training and drafting of technical regulations.

To execute our mandate, we carry out market surveillance through inspections, the issuing of pre-market approvals (including sales permits) and when products are discovered to be non-compliant, we apply sanctions to prevent their sale.

The NRCS is funded through fees collected from industry, which comprise 77% of the income, and a government grant.

# Report of the Chairperson

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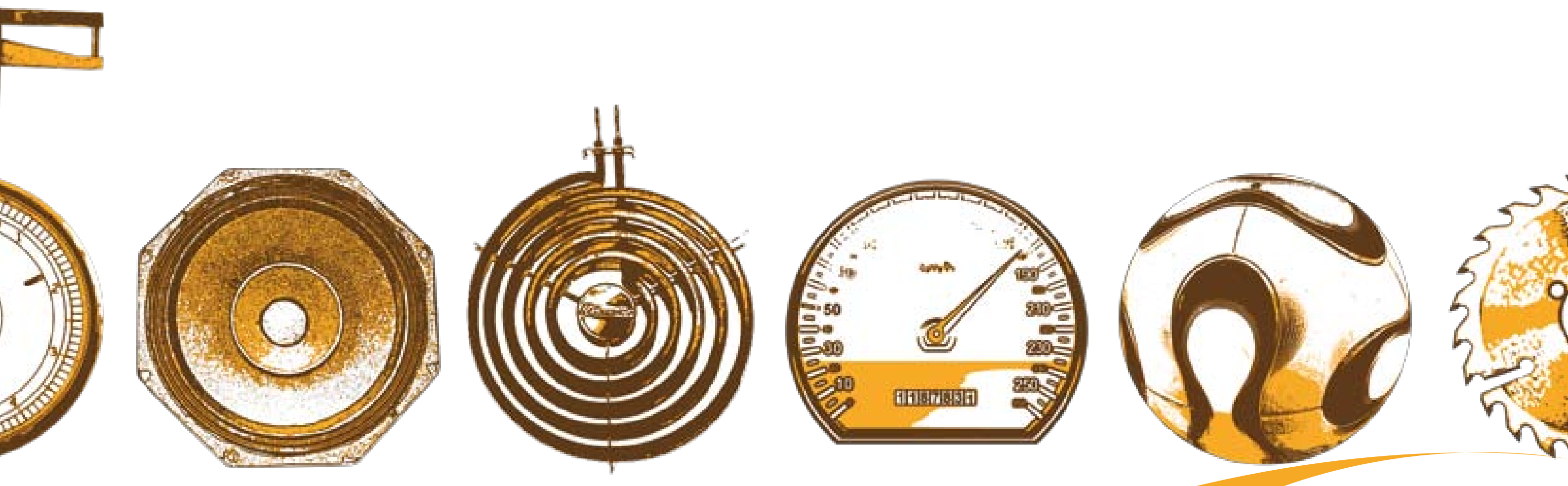
## Report of the Chairperson

After only 17 months as an independent regulatory body, the NRCS has already developed a track record of protecting the interests of consumers and promoting fair trade. On behalf of the NRCS Board, it is an honour to present this annual report of the NRCS's performance for the financial year ending 31 March 2010.

Shortly before the beginning of the 2009/10 financial year, the Minister of Trade and Industry appointed the current Board, which took over from the Interim Management Committee that oversaw and guided the NRCS since its inception on 1 September 2008. The transition from this interim management committee to the current Board took place smoothly, enabling the Board to be effective from the outset in pursuing its governance and oversight obligations.



The Board has unquestionably demonstrated its commitment to good corporate governance within NRCS. At the first meeting of the Board, we established three Board sub-committees, namely; the Audit and Risk Committee, the Remuneration Committee and the Technical Committee to assist the Board in the performance of its functions. With their assistance, the Board then moved swiftly to establish the policy framework needed to entrench the highest standards of governance across the organisation. During the year under review, the Board approved no fewer than 15 major policies, including the Code of Ethics, Policy on Conflict of Interest, Risk Management Policy, Delegation of Authority and the Policy on Supply Chain Management.

Aware of the importance of stability and competence in the senior management of NRCS, the Board recommended that the position of Chief Executive Officer be filled by Mr Moses Moeletsi. He had been acting as CEO since the establishment of the NRCS. The Board also supported the appointment of Mr Werner van der Merwe as Chief Financial Officer. The Minister's decision on the CEO's recommendation is expected in the coming financial year.

The development of corporate strategy was another priority for the Board, which is determined to position NRCS as one of the world's most effective, credible and respected Regulators. The strategy, which was approved by the Minister, is aimed at ensuring that the NRCS is able to eliminate non-compliant products from the market whilst assisting industry to comply with the relevant compulsory specifications.

Examples of the innovative methods we have in mind are the surprise raids conducted across the country from October 2009 onwards, as well as public functions at which non-compliant products are destroyed, helping to rid the country of unsafe commodities. As the Minister, Dr Rob Davies, pointed out at the destruction function held on 6 October 2009, malfunctioning products can lead to serious injury and have devastating consequences for individuals and families. He reiterated government's commitment to locking out unsafe products, many of which are sold to poor people who lack the necessary information on safety standards and their rights as consumers.

The NRCS is an important part of the Standard Quality Assurance Accreditation & Metrology (SQAM) infrastructure being put in place by the Department of Trade and Industry to uphold consumer rights so as to create a more just society and an effective and efficient economy. The NRCS contributes to this through its day-to-day work of approvals, inspections and market surveillance and, where it finds products that do not comply with the specifications, applying sanctions such as product recalls, confiscation, destruction or return of non-compliant products to their country of origin.

The Board believes that even though NRCS has made significant strides in realising its mandate, the organisation can still do more in rooting out non-compliance from the market place. However, one constraint to its effectiveness is the funding challenge. As was noted in the annual report for 2008/09, there has been a decline in payment of levies by the industry to NRCS, as well as in the funds it receives from government due to the economic meltdown. Going forward, we will continue to work with the Minister and his Department to seek ways to overcome the shortage of funds and also to find ways to maximise levy collection from the industry.

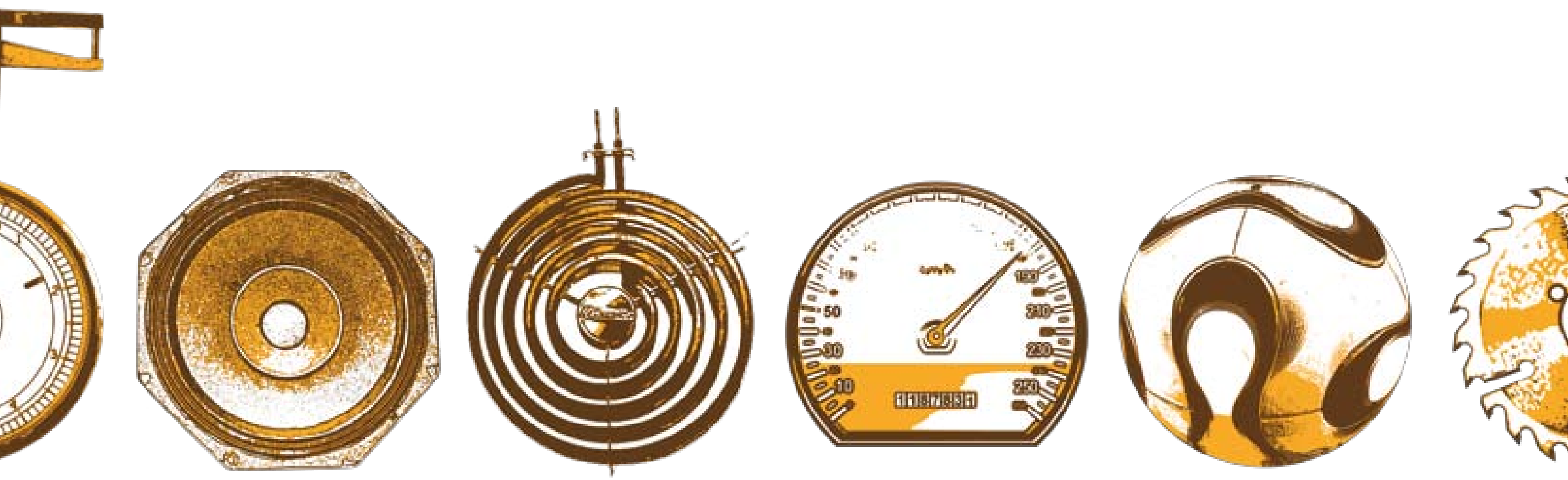
Of particular concern to the Board is the lack of funding for Legal Metrology functions. Its mandate is very critical as it ensures that manufacturers and suppliers do not short measure the products they sell to consumers.

The NRCS also faces a challenge in funding the National Building Regulations and Standards (NRBS) functions. Again the mandate of the NBRS is very important as it promotes uniformity in legislation relating to the erection of buildings in the areas of jurisdiction of local authorities and prescribes building standards. The Board's recommendation to the Minister was that a new National Building Regulation be promulgated for the energy efficiency of buildings. This is in support of the government's national energy strategy aimed at reducing energy demand by 15% in 2015.

Apart from the funding constraints, I am proud to report that the financial affairs of the NRCS are in good order, with the Auditor-General for the second year in succession issuing an unqualified audit report. All findings of 2008/09 were addressed and implemented. The Board is determined to maintain the NRCS's record for clean audits.

I wish to express my appreciation to my fellow Board members, who bring great depth of skill and knowledge in finance, risk management, corporate governance, consumer and technical matters, among others, to their task of overseeing and providing guidance in the affairs of the NRCS. My gratitude also goes to Chief Executive Officer, his management team and staff, for a job well done. Considering how new the NRCS still is as an organisation, it is remarkable how effectively it has established its credibility in the marketplace and how confidently it is tackling its funding, skills and other challenges. In the short time since it became a separate, independent regulator, the NRCS has performed very well indeed.

Ms Savannah Maziya
**Chairperson of the Board of the National Regulator for Compulsory Specifications**



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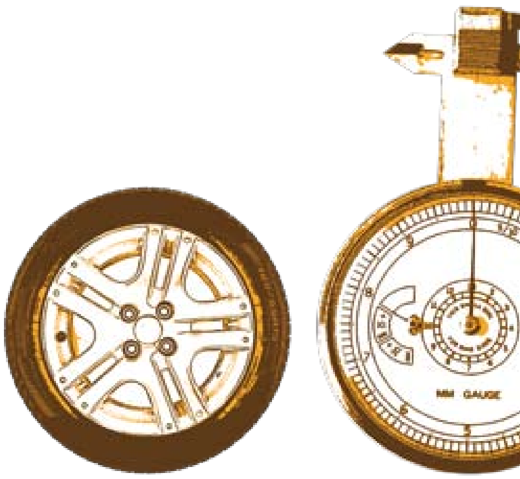
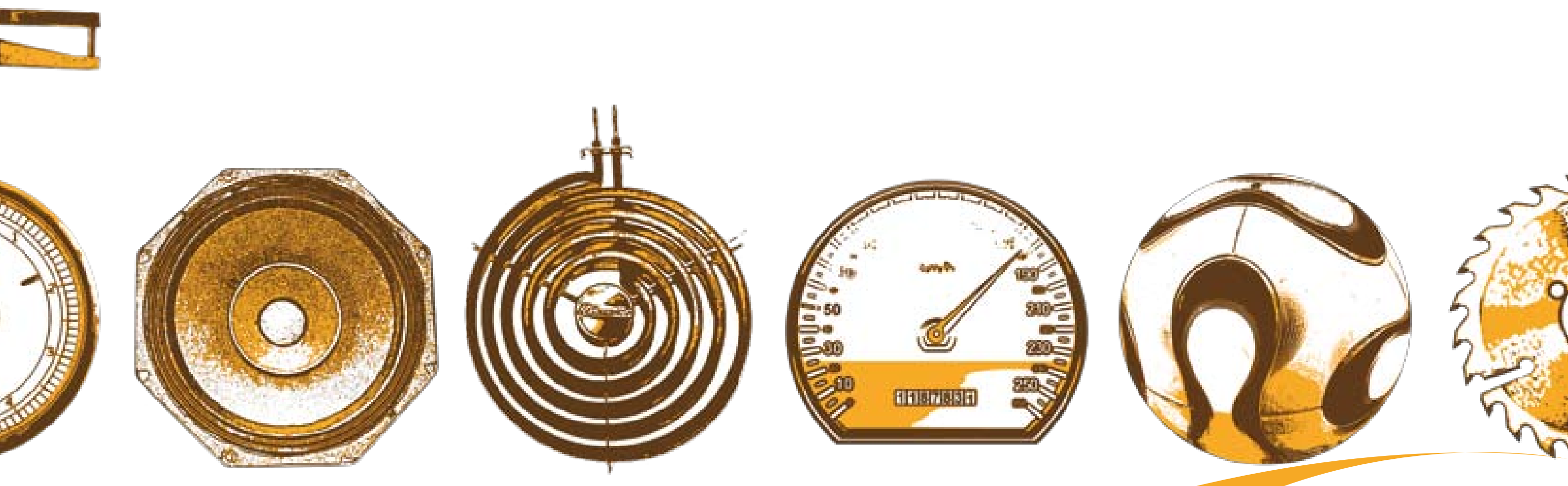
# Report of the CEO



## Report of the Chief Executive Officer

The 2009/10 financial year was the NRCS's first full year in operation as an independent regulator. It was a period in which the organisation made significant strides in preventing unsafe products from entering the country's markets with a view to protecting South African consumers. This was achieved through vigilant market surveillance, mainly in the form of inspections carried out at the premises of various manufacturers, importers and retailers, where flawed or malfunctioning products were confiscated and later destroyed. Had some of these goods found their way into the homes of consumers, they could have well caused serious injury or worse.

We will continue working for the good of our people as we strive to become the credible, relevant, recognised, effective, efficient and respected Regulator.



Over the past year, we recorded an improvement in some areas of our performance, which is assessed through the goals we attain as per the strategic plan. As a measure of performance in 2009/10, the organisation exceeded its target of 49 462 inspections by conducting 55 252 inspections.

The total value of goods confiscated, recalled or sent back to the countries of origin amounted to R197 million. This underlines the value that the organisation adds to the South African economy and the general public.

In some cases, massive consignments of non-compliant goods were intercepted and disposed of before they could do any harm. Among others, the NRCS destroyed about 344 000 cans of non-compliant tinned fish that could have had negative effects on the health of many of our people. Adaptors valued at R15,5 million were restrained from sale and the organisation was granted a High Court order for the destruction of the products. NRCS also destroyed potentially hazardous paraffin stoves and heaters valued at about R4,6 million. In the automotive industry, the organisation ensured that approximately R28 million worth of unsafe vehicles and components, including brake pads and headlights, were taken out of circulation.

An important part of our mandate is to ensure that products sold to South African consumers are not short measured. Consumers should receive what they pay for and not less, which is why our Legal Metrology team checks that manufacturers and suppliers use accurate weights and measures for all transactions, and that products are sold in the quantities or amounts declared on the packaging. Regrettably, it seems that short measuring is on the increase in South Africa. In 2009/10 alone, the total value of non-compliant goods taken out of circulation in accordance with legal metrology regulations is estimated at R37,1 million.

In all, the NRCS issued a total of 27 736 embargoes (directives) against non-compliant products and prosecutions were instituted against 1 174 businesses. We also continued discussions with the National Prosecuting Authority over the importance of prosecuting businesses that cut legal corners.

NRCS strives to create a positive and ethical work climate that is conducive to attracting, retaining and motivating employees at all levels. The organisation operates in a difficult environment where skills are scarce. To counteract this problem, NRCS continuously revises and implements its Competence Development Programme. However, lack of adequate financial resources hampers full implementation of the programme.

As at 31 March 2010, the organisation had a total staff complement of 293 permanent employees and seven contractors. The executive team comprises nine members, two of whom are on contract.

The staff turnover rate for the organisation as a whole at both senior and lower levels was 7.7%. Although we suffered some skills losses, the turnover rate for the year was not unduly high and we have been able to retain staff occupying critical positions. Some inspection functions had inadequate human resources due to financial constraints but the NRCS's staffing position was stable. This stability has been enhanced through the filling of key executive positions, including that of the Chief Financial Officer.

During the year under review, the organisation together with an external service provider undertook a survey to ensure that the salaries of staff are market related. The exercise was completed during the financial year and the implementation thereof is to be staggered between September 2010 and September 2011. This is essential in ensuring that NRCS retains competent employees and becomes an employer of choice.

NRCS also contracted an external service provider to manage the employee wellness programme. This is meant to assist employees and their immediate families to cope with problems arising from their work or personal circumstances, thus assuring the highest levels of performance.

In the year ahead, the organisation will ensure that its human resources strategy addresses all key issues related to human resources.

The organisation is still facing financial challenges. On average 77% of NRCS's income comes from industry levies and the other 23% from government. The 2009/10 financial year was a difficult year and created high levels of uncertainty due to lack of sufficient funding. A serious concern – especially in the light of the growing trend towards short measuring – is the lack of funding for Legal Metrology functions.

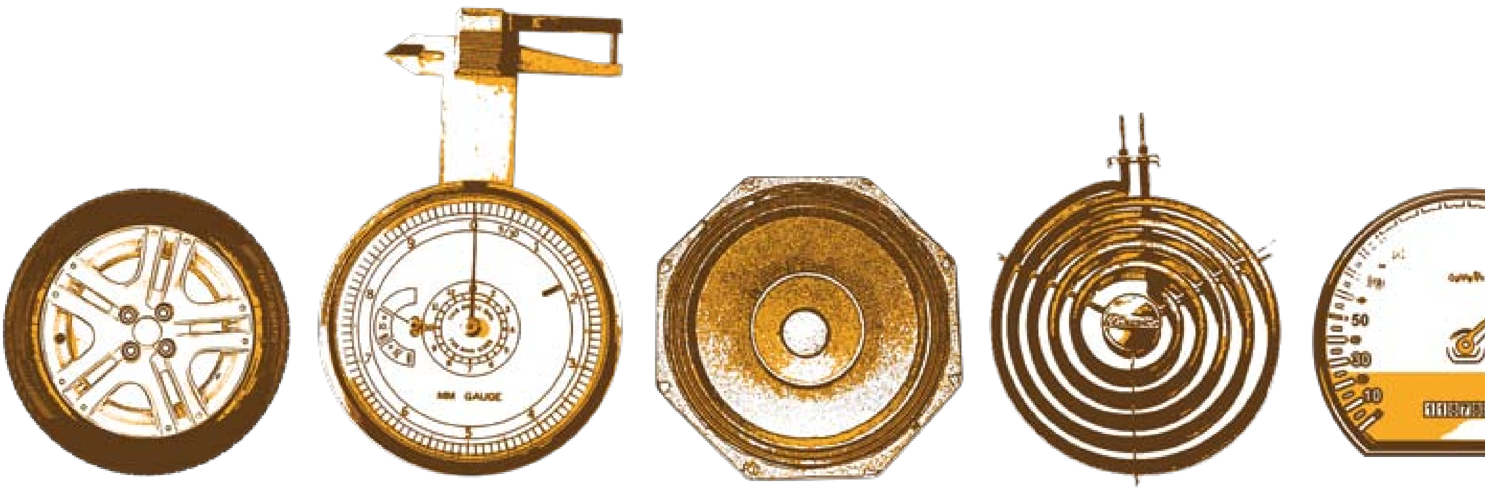
Intent on working smarter rather than harder, the organisation conducted a needs analysis during the financial year for a Customer Relationship Management (CRM) system. The CRM system is intended to expedite client management by enhancing client registration, lodging of applications and approval of certificates. It will enable NRCS to communicate and share critical information with its partners, including South African Revenue Services (SARS), the Department of Transport's e-Natis system, Companies and Intellectual Property Registration Office (CIPRO) and International Trade Administration Commission of South Africa (ITAC). The system will also incorporate inspections and sampling information, thus streamlining processes and contributing to greater organisational efficiency and effectiveness.

The NRCS strives to operate within the acceptable standards of governance and during this financial year about 50% of policies and procedures were revised and adopted to meet the requirements of the organisation and ensure compliance with the latest governance practices, codes and guidelines.

To meet our statutory duty of informing stakeholders about our activities, the organisation conducted quarterly meetings with the industries that we regulate. Through the Communications Department, we issued media releases, statements and alerts to warn members of the public about incidents of non-compliance. Thanks to these efforts, the organisation is slowly being recognised as a distinguished brand. The media are also receptive to the NRCS and thus disseminate information about the organisation, its programmes and policies.

The management and staff of the NRCS are proud to be part of an organisation that is regulating the Industry and in the process, helping to build a more just South Africa, a more efficient economy and a more informed base of discerning consumers.

Moses Moeletsi
**Chief Executive Officer**
**National Regulator for Compulsory Specifications (NRCS)**



# Current Board Members

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From left to right: Ms Funzani Melato, Ms Dora Ndaba, Mr Nico Vermeulen, Mr Moses Moeletsi (CEO), Ms Savannah Maziya (Chairperson), Mr Sipho Zikode, Prof. Sadhasivan Perumal, Adv. Derick Block

Absent:

Ms S. E. 'Lillibeth' Moolman

Ms Savannah Maziya
Chairperson

Mr Sipho Zikode

Mr Moses Moeletsi
CEO

Adv. Derick Block

Ms Dora Ndaba

Prof. Sadhasivan Perumal

Mr Nico Vermeulen

Ms Funzani Melato

Ms S. E. 'Lillibeth' Moolman

# The Board of the National Regulator for Compulsory Specifications (NRCS)

## Ms Savannah Maziya

Ms Maziya is the current chairperson of the National Regulator for Compulsory Specifications Board. She holds a BA (Finance and Broadcast Science) from Bridgewater University in the USA and an MBA from Demontfort University in the UK.

She is the CEO of Bunengi Holdings, a company operating in mining, finance and infrastructure. She was, prior to this, the CEO of the African Broadcast Network.

Other current Board positions include Wilson Bailey Holmes (WBHO), Rainbow Construction, Bunengi Holdings and Rand Water.

Ms Maziya has previously served as a director on the Limpopo Gambling and Casino Board, National Casino and Gambling Board, Western Cape Immigration Board, Construction Industry Development Board (CIDB), Broadcasting Complaints Commission of South Africa (BCCSA), Gold 1 and Uranium 1.

## Mr Moses Moeletsi

Mr Moeletsi is the current Chief Executive Officer of NRCS. He has qualifications in Law and Labour Relations which he attained from the University of North West and Rand Afrikaans University respectively. He also has a National Diploma in Theology from Bethel College and a Bachelor of Business Administration (BBA) from Andrews University, Berrien Springs, State of Michigan in the USA.

He is the current Chairman of the Short Term Insurance Ombudsman, a council member of the Long Term Insurance Ombudsman, and a Board member of the Motor Industry Ombudsman and the Short Term Insurance Committee. He has occupied various critical positions in Government, first as the Chief Director for Consumer Affairs and Business Regulations and Liquor Licensing, respectively, in the Gauteng Department of Finance and Economic Affairs. In 2004 he was appointed as the Chief Director for Policy and Legislation at the **dti**. He joined the South African Bureau of Standards as the Regulatory Executive in 2005 where he was instrumental in the establishment of NRCS.

## Adv. Derick Block

Adv. Block holds a B Iuris and an LLB degree and has 16 years experience in procurement. He has been involved in law since 1994 and has made various inputs in legislation of the National Department of Transport and the South African rail industry.

Currently, he is a Board member of the Johannesburg Road Agency and the Medical Research Council of SA.

## Ms Funzani Melato

Ms Melato holds an MSc in Organometallic Chemistry from the University of the Western Cape. She has been lecturing General and Analytical Chemistry at the Tshwane University of Technology since 2001.

She is also a Board member of Sunland Farms Empowerment Trust.

## Ms S. E. 'Lillibeth' Moolman

Ms Moolman holds a BA Honours degree in History and a Higher Education Diploma from Rhodes University. She has been a consumer activist since 1975, working as a voluntary worker. She represents consumers on a variety of councils, boards and organisations.

She is currently the chairperson of the South African National Consumer Union (SANCU). Ms Moolman has twice received Consumer Awards for Excellence in Consumer Protection from the **dti** and the Paul Harris Award from Rotary International.

Previous positions include Chairperson of the National Consumer Forum and the Agricultural Products Agents Council (APAC) and Director of the SA Meat Industry Company (SAMIC).

Currently, she is a Board member of the Estate Agency Affairs Board (EAAB), National Agricultural Marketing Council (NAMC), Dairy Standards Agency (DSA), Cotton South Africa, Short Term Insurance Ombudsman Council, Credit Ombudsman, Free Market Foundation of Southern Africa and the Food Advisory Consumer Service (FACS).

## Ms Dora Ndaba

Ms Ndaba holds a BTech in Transport Logistics and a Diploma in Transport Management from the University of Johannesburg, as well as a qualification in Marketing and Management from the Institute of Marketing and Management and in Agriculture Marketing and Management from the University of Missouri (USA).

She has won numerous prestigious awards, including the State President's Award, the Order of the Baobab Silver, in 2004. In 1997, Ms Ndaba was named Sowetan Entrepreneur of the Year and, also in 1997, she received a Technology for Women in Business award from the **dti**. Other accolades include receiving a Woman of the 90's award from Femina and NNTV in 1995 and, in 1992, being named as a national nominee for the Business Woman of the Year Award.

Ms Ndaba is a member of the Presidential Working Group on Women and of the National Small Business Council. She is also an independent audit member of the City of Joburg, a Board member of the Deciduous Fruit Workers Trust and the Water Research Commission, and a member of the NEDLAC Transport Committee.

## Prof. Sadhasivan Perumal

Prof. Perumal holds a DCom from the University of Durban-Westville. Prior to becoming a Lecturer in Marketing and Management in 1992, he has been employed for 18 years as an accountant in the Administration Department of the University of Durban-Westville.

He is currently the Deputy Head of the School of Management of the University of Kwa-Zulu Natal.

Prof Perumal currently serves on the Council for the Built Environment and the Tender Tribunal of KwaZulu-Natal and is Chairperson of the Immigration Selection Committee in KZN.

## Mr Nico Vermeulen

Mr Vermeulen holds a BCom (Honours) degree from the University of KwaZulu-Natal. He has been Chief Executive of the National Association of Automobile Manufacturers of South Africa (NAAMSA) since March 1982 and is well versed in all aspects of the automotive and associated industries. He is currently a Director of NAAMSA.

He serves on the Board of the Unemployment Insurance Fund, the Council of Business Unity South Africa, the Executive Board of SACCI, the Motor Industry Development Council, Productivity SA and the Motor Industry Ombudsman.

## Mr Sipho Zikode

Mr Zikode holds a BCom (Economics) from the University of the Witwatersrand as well as an MBA from the University of Pretoria. He is currently the Chief Director: Industrial Participation at the **dti**, a position he has held since 2003. He is the former chairperson of the Interim Management Committee of the NRCS that oversaw the establishment of the NRCS.

He is also Acting Deputy Director-General of the Enterprise and Industry Development Division of the **dti**.

# Executive Management

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Michael Young
General Manager: Food and Associated Industries

Stuart Carstens
General Manager: Legal Metrology

Anjue Hirachund
General Manager: Automotive

Patricia Mazibuko
General Manager: Electrotechnical and Gaming

Moses Moeletsi
CEO

Thomas Madzivhe
General Manager: CMM

Bongani Khanyile
General Manager: Corporate Services

Werner van der Merwe
CFO

Francois Zen Fourie
General Manager: RR&D

# Automotive

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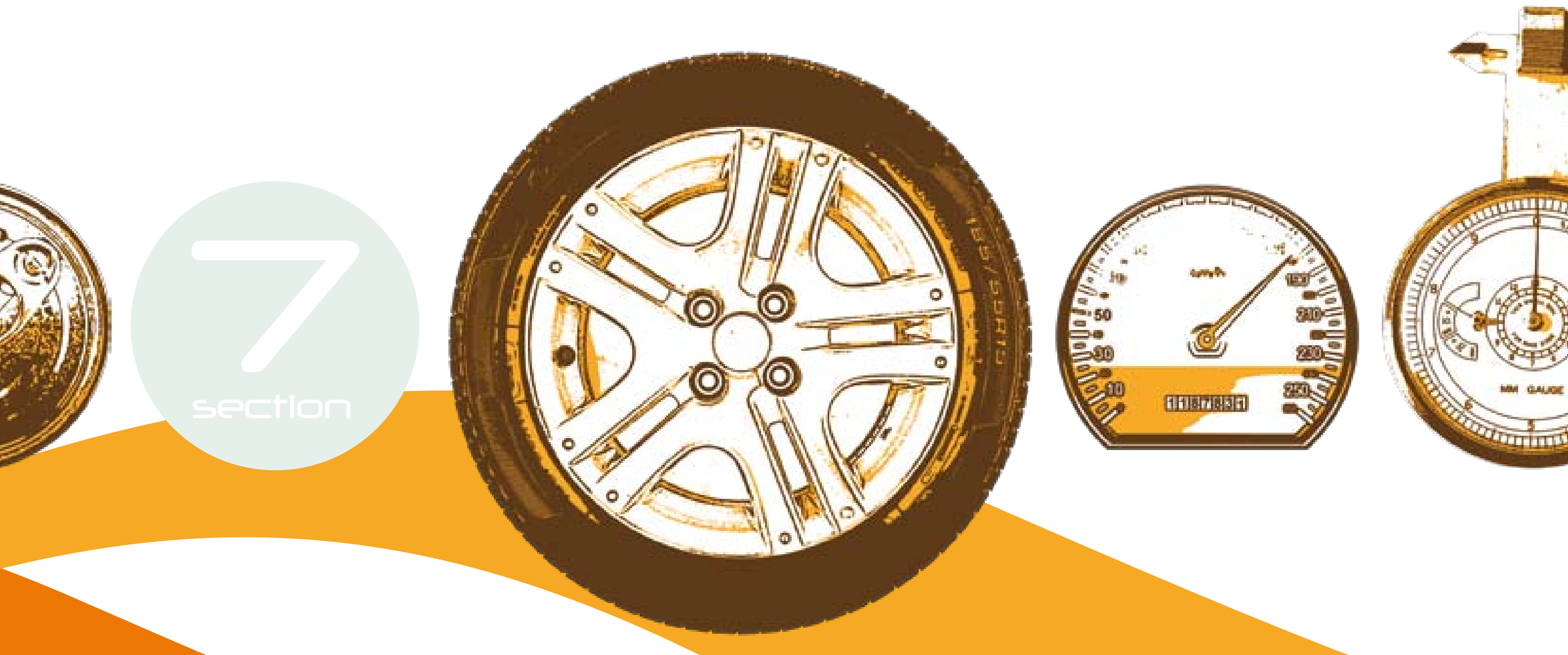

## About the Automotive division

The division protects consumers by ensuring that new vehicles, tyres and certain components meet requirements as set out in compulsory specifications. Regulated vehicle products include:

- Passenger and goods vehicles, agricultural tractors and motorcycles.
- Tyres, safety glass, lamps, lights and replacement brake lining.
- Child-restraining devices.
- Motorcycle helmets.

While South Africa's automotive industry has been affected by recalls, it did not happen on the scale seen in North America, China and Europe. This can partly be attributed to the country's stringent requirements for manufacturing and importing vehicles, tyres and certain components. These requirements include mandatory registration of manufacturers, builders and importers, as well as compulsory approval (homologation) of imported and locally manufactured vehicles, vehicle parts and tyres.

In the 2009/10 financial year, the Automotive division of the NRCS conducted mandatory homologations of 2 655 vehicles, including passenger vehicles, buses, light commercial vehicles, heavy commercial vehicles and trailers. During the same period 1 945 vehicle components were homologated.

To ensure ongoing compliance in the industry, the division substantially increased its workload of inspections at vehicle production plants and retail outlets. A total of 4 542 inspections were conducted, which was 40% more than in 2008/09 when just over 3 000 inspections had been conducted.

These market surveillance activities resulted in the Automotive division finding non-compliant goods to the value of R28,2 million, including tractors, passenger vehicles, child restraints, motorcycle helmets, brake pads, headlights and incandescent lamps.

In June 2009, the division issued a directive against a vehicle manufacturer, whose passenger vehicles had been fitted with rear fog lamps, fuel filler inlets and side indicators that did not meet the compulsory specifications and posed serious safety risks to consumers. The manufacturer had to correct the deviations by recalling and modifying all vehicles sold.

The minibus taxi industry was another focal point. During investigations in KwaZulu-Natal and the Western Cape, the division discovered that certain vehicle body builders were illegally converting panel vans for the Department of Transport's Taxi Recapitalisation Programme.

Another investigation in the Western Cape exposed two manufacturers of non-compliant motorcycle helmets, prompting the NRCS to issue a media alert to warn consumers against buying these unsafe products. The division has since created a database for customers to confirm approved helmet makes and models.

The action taken against non-complying companies included instructing them to return the products concerned to the countries of origin and ordering them to stop selling the products or recall the products to correct the shortcomings identified.

Adding to the division's effectiveness in keeping non-compliant products out of the market is access to the National Traffic Information System (eNaTIS). Specifically, when an incident of non-compliance is identified and the manufacturer, importer or builder fails to take corrective action, the model NaTIS number is suspended. No more vehicles of that model can be registered in South Africa until the model number has been reinstated.

## Strengthening the culture of compliance

In step with the NRCS's quest for continual improvement, six compulsory specifications relating to the Automotive industry were gazetted or submitted to the **dti** for gazetting.

The division continued building sound working relationships with a broad spectrum of industry stakeholders and participated in various vehicle-related forums and technical committees. These included four Department of Transport committees, the South African Police Vehicle Crime Forum, the Institute of Road Transport Engineers Technical Committee and the South African Bus Operators Association Technical Committee, among others.

Regionally, the Automotive division represents the NRCS on the Southern African Development Community (SADC) Forum on the Harmonisation of Vehicle Regulations. NRCS is the appointed secretariat to the SADC Forum and was responsible for drafting the documents on vehicle loads, vehicle dimensions, test stations, roadworthiness of motor vehicles, equipment of vehicles and transportation of dangerous goods.

In the international arena, the NRCS is the South African Designated Administrative Department at the World Forum for Harmonisation of Vehicle Regulations (WP 29) and the WP 29 subsidiary bodies. These include the working groups for pollution and energy, general safety, brakes and running gear, lighting and light signalling, and passenger safety.

In the coming year, the division's priority is to further increase its effectiveness in removing non-compliant products from the market. With this in mind, Automotive plans to implement a web-based system for homologation applications and to locate suitable vehicle testing facilities to fill the present gap in the tools available to promote greater compliance.




# Chemical, Mechanical and Materials (CMM)

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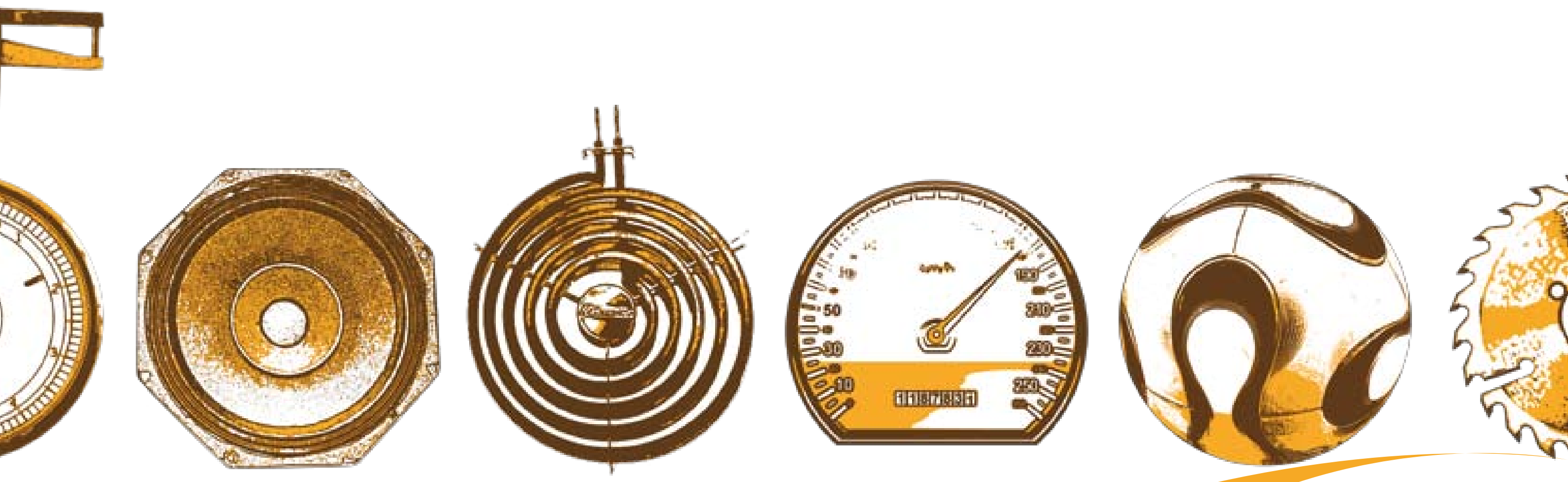
## About the Chemical, Mechanical and Materials (CMM) division

CMM regulates products in the following six industry categories:

- Personal protective equipment such as lifejackets, buoyancy aids and swimming aids.
- Firearms and associated industries, focusing on the safety of firearms for personal use and at shooting ranges.
- Health-related products, mainly disinfectants, detergents and other goods used for cleaning and sanitation.
- Environmental protection, focusing on preventing damage to the environment from plastic carrier bags and flat bags.
- Flame-producing devices, including lighters and non-pressure paraffin stoves and heaters.
- Construction materials such as cement.



To stem the flow of unsafe or faulty goods in circulation in South Africa, the CMM division has stepped up its inspection and enforcement activities and increased its visibility in the marketplace.

Sending a clear warning to businesses trading in non-compliant products, CMM conducted approximately 30% more market inspections in 2009/10 than in the previous year and removed significantly more products, by value, from the market. The division was also a major player in the NRCS's high-profile destruction of goods functions. These included the October 2009 event attended by the Minister of Trade and Industry, at which thousands of non-compliant products were destroyed, including paraffin heaters and stoves.

Unsafe non-pressure paraffin stoves and heaters pose a significant threat to public health and safety, and these were aggressively targeted during the year under review through the "Blitz" campaign of inspections. This highly successful project saw the CMM division conducting a countrywide series of unannounced inspections on suppliers of paraffin stoves and heaters. In all, the inspections netted more than 46 000 non-compliant stoves and over 1 400 heaters with a collective nominal value of approximately R4,6 million, as shown in the table below.

| Products | Quantity | Estimated market value |
|---|---|---|
| Paraffin stoves | 46 085 @ R90 each | R4 147 650.00 |
| Heaters | 1 425 @ R350 each | R498 750.00 |
| **Total** | | **R 4 646 400.00** |

Over and above the Blitz inspections, the CMM division carried out an extensive programme of inspections across all six industries covered. A total of 5 610 inspections were conducted, an increase of more than 30% compared to the 3 780 inspections of the previous year.

Close cooperation with SARS Customs, which included training Customs officials, paid off through an increase in products detained for the NRCS in Durban, Port Elizabeth, Johannesburg and Cape Town.

The table below provides details of non-compliant goods removed from the market in the Western Cape, Port Elizabeth, East London and Durban during 2009/10.

## Products destroyed in 2009/10

| Commodity | Western Cape | Port Elizabeth | East London | Durban | Gauteng | Total | Price per unit | R Value |
|---|---|---|---|---|---|---|---|---|
| Paraffin Stoves | 9 800 | 61 | 845 | 6 000 | 10 717 | 27 423 | R 90.00 | R 2 468 070.00 |
| Paraffin Heaters | 5 500 | 74 | 55 | - | 649 | 6 278 | R 350.00 | R 2 197 300.00 |
| Plastic Bags | 81 000 | - | - | - | - | 81 000 | R 0.25 | R 20 250.00 |
| Swimming Aids | 5 000 | 420 | - | - | - | 5 420 | R 25.00 | R 135 500.00 |
| Lighters | 6 303 | - | 250 | - | - | 6 553 | R 10.00 | R 65 530.00 |
| Total | 107 603 | 555 | 1 150 | 6 000 | 11 366 | 126 674 | | R 4 886 650.00 |

While intensifying its enforcement activities, the division also held regular meetings with industry stakeholders, participated in international regulatory events and processed industry applications for product certification.

The division conducted 5 898 inspections. During the financial year, CMM issued a total of 527 certificates, an increase of more than 25% on the 388 certificates issued in the previous year. Of the certificates issued in 2009/10, letters of approval accounted for 165, shooting range assessments for 158, registrations for 139 and homologations for 65.

The CMM division continued to enhance its knowledge base by participating in international courses, conferences and regulatory events. These included the Technical Cement Conference held in California, US in May 2009, the Shooting Range Development and Operations Conference in Rhode Island, US in August and September 2009, the meeting of ISO Technical Committee 61: Plastics in Italy in October 2009 and the European Personal Protective Equipment Seminar in Finland in January 2010.

## SANAS accreditation confirmed

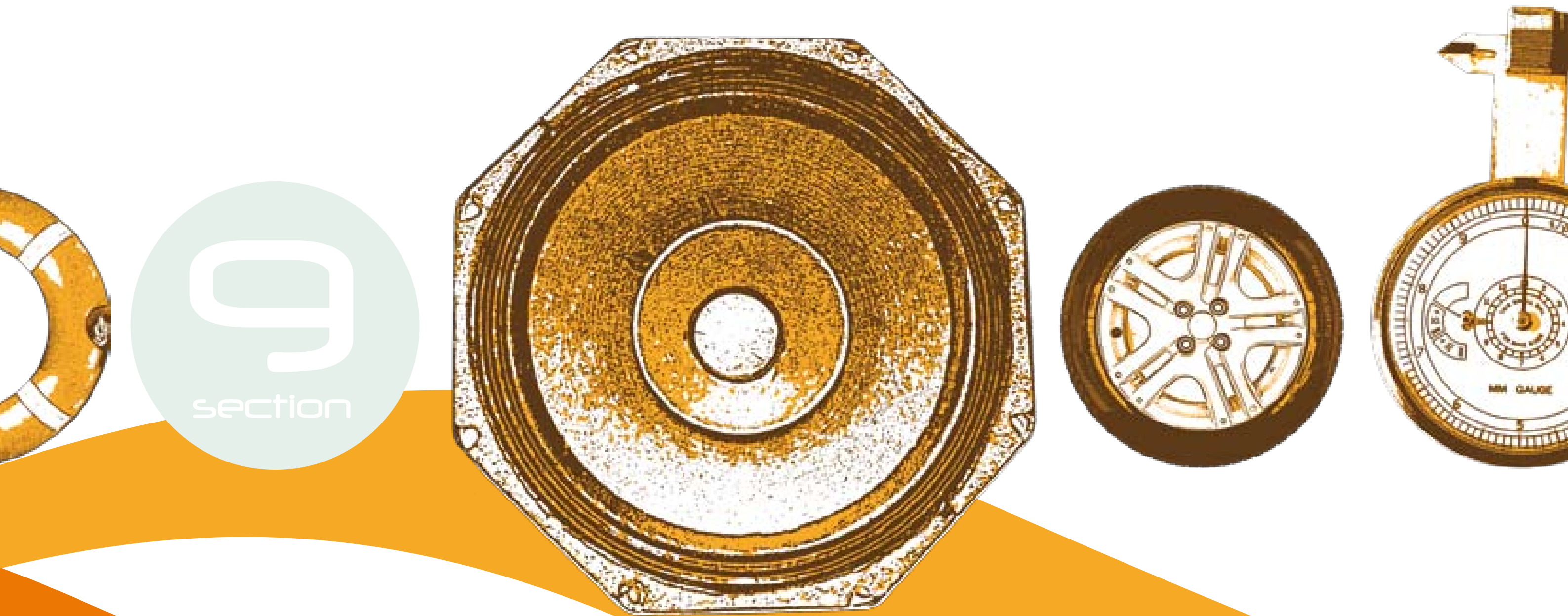
A feather in the cap of the CMM division was its successful accreditation application to the South African National Accreditation System (SANAS). The division submitted its application in April 2008 for the accreditation of its inspection processes for personal protective equipment, disinfectants and detergent-disinfectants. Following an assessment of CMM's management system and related processes, SANAS awarded the division accreditation early in the 2009/10 financial year. The next step is to add more specifications to its accreditation status.

Another highlight of the year was the promulgation and implementation of the new compulsory specifications for personal flotation devices and swimming aids as well as for treated timber.

One of the few areas of its operations where CMM did not make the progress hoped for was in the training of staff, especially candidate inspectors. The drawback to implementing its staff training plans is the lack of registered vendors qualified to provide the training required. The division is exploring ways to overcome these constraints as the availability of suitable skills is a critical success factor for sustained performance. On the whole, however, the division is well positioned to continue promoting safe, efficient production and distribution of the goods it regulates in the interests of public health and business viability.


# Electrotechnical and Gaming

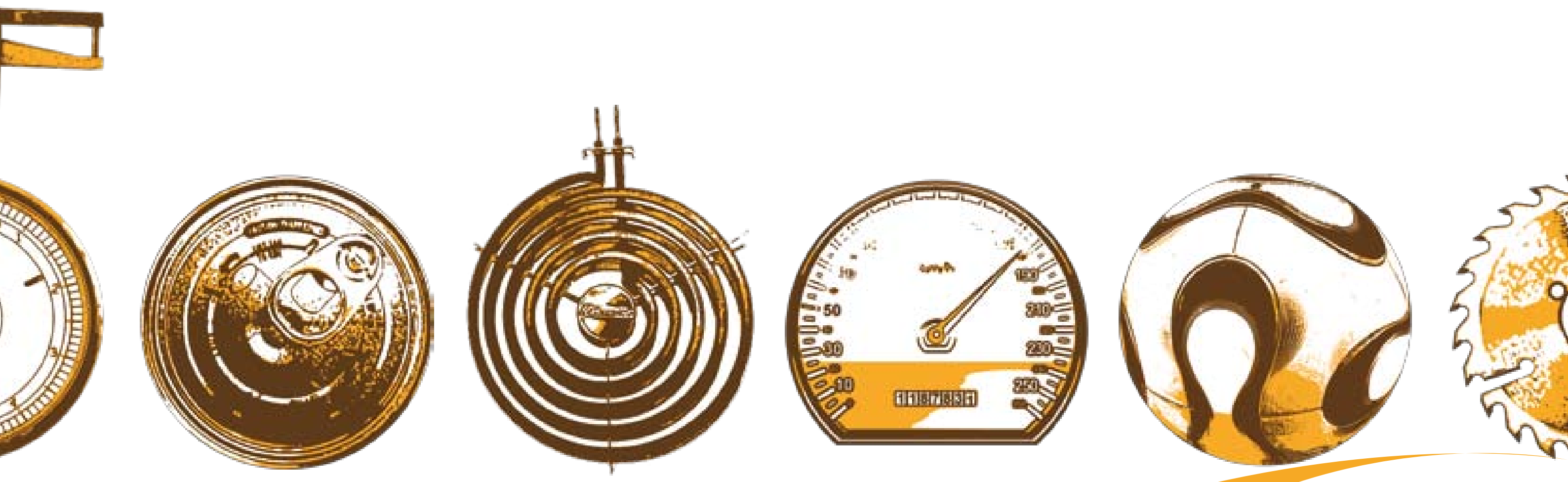
9 section



## About the Electrotechnical and Gaming division

The division regulates the following categories of products:

- Appliances
- Electrical power tools
- Electronic equipment
- Sound and communications equipment
- IT equipment
- Lighting equipment, components and lamp control gear
- Components of appliances such as switches
- Electric cables and flexible cords
- Electric plugs, socket outlets and adaptors
- Components of low-voltage fixed wiring installations, including circuit breakers and earth-leakage protection
- Gaming machines and gambling equipment



The 2009/10 financial year was a productive period for the Electrotechnical division, which exceeded its target for inspections and was extremely effective in removing non-compliant goods from the market.

Where the division had planned to conduct 6 800 inspections during the year, the actual number conducted came to 7 444. These inspections, together with the high-profile surprised raids held during the year, netted non-compliant electrical and electronic goods with an estimated shelf value of R1 578 420.00 million. The goods concerned were exceptionally diverse and included cellphone chargers, clock radios, soldering irons, plugs, extension cords, hairdryers, hot plates and kettles.

One of the largest hauls of non-compliant goods discovered consisted of 703 850 snapper adaptors with a rand value of approximately R15 484 700.00 million. These highly unsafe adaptors were recalled and quarantined after a High Court order was obtained.

During the 2009 Christmas season, retailers in China City in Johannesburg voluntarily handed over thousands of non-compliant electronic and electrical items after an NRCS raid.

In yet another major discovery, this time of non-compliant fluorescent light fittings, the Electrotechnical division halted sales, recalled the products and alerted consumers to the safety hazards associated with these light fittings.

The division was also very active in processing applications for letters of authority to offer electronic and electrotechnical goods for sale in the South African market. In all, 6 422 applications were received, of which 5 871 were accepted and 551 rejected. The number of rejected applications was significantly higher than the previous year's 49. This demonstrates yet again that applications are only granted if they meet the regulatory requirements.

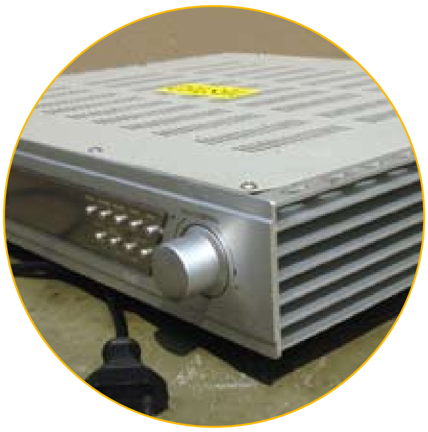
In the case of requests for letters of certification, the division received 926 applications and approved 918. One application was revoked and seven were outstanding, pending the submission of certain information from the applicant.

As for Regulatory Compliance Certificates, the Electro-technical division recorded a slight increase in the number of applications and issued 218 of these certificates.

## Cultivating close working relationships

The division continued to cultivate excellent working relationships with the South African Police Service, the Customs and Excise division of the SARS and other role players.

Customs officials are invaluable in the drive to ensure that unsafe products do not enter the South African marketplace. They not only check the letters of authority produced at points of entry but also use the NRCS database



to verify this documentation. To take collaboration to the next level, the NRCS and SARS teamed up in 2009/10 to establish a joint stakeholder forum.

The division also benefited from the cooperation received from other government agencies and parastatals with an interest in promoting industry compliance. They include SABS, Eskom, the Department of Labour and the Department of Mineral Resources.

Interaction with manufacturers, suppliers, importers and industry bodies continued, with the focus on clarifying compliance requirements and raising awareness of the role of the NRCS in general and the Electrotechnical division in particular.

Internationally, the division nominated two specialists to serve on working groups of the International Electrotechnical Commission Certification Management Committee. These are the Counterfeiting Working Group and the Infringements Working Group.

## Relevant, responsive regulation

This division administers 17 compulsory specifications, which are reviewed or augmented when needed so as to remain relevant and in step with international best practices. In the 2009/10 financial year, six compulsory specifications were gazetted for products such as flexible cord for appliances, manually operated switches for appliances and plug socket outlets and adaptors.

One of the biggest challenges for the division has been the lack of available, accredited laboratories in South Africa for the testing of sampled goods. Only two suitable facilities exist, resulting in long testing turnaround times, which in turn affects the time taken to remove non-compliant products from the market. Shortening these turnaround times is a critical priority for the coming year, as is the strengthening of collaborative relationships with other agencies that can assist in intensifying consumer protection programmes.

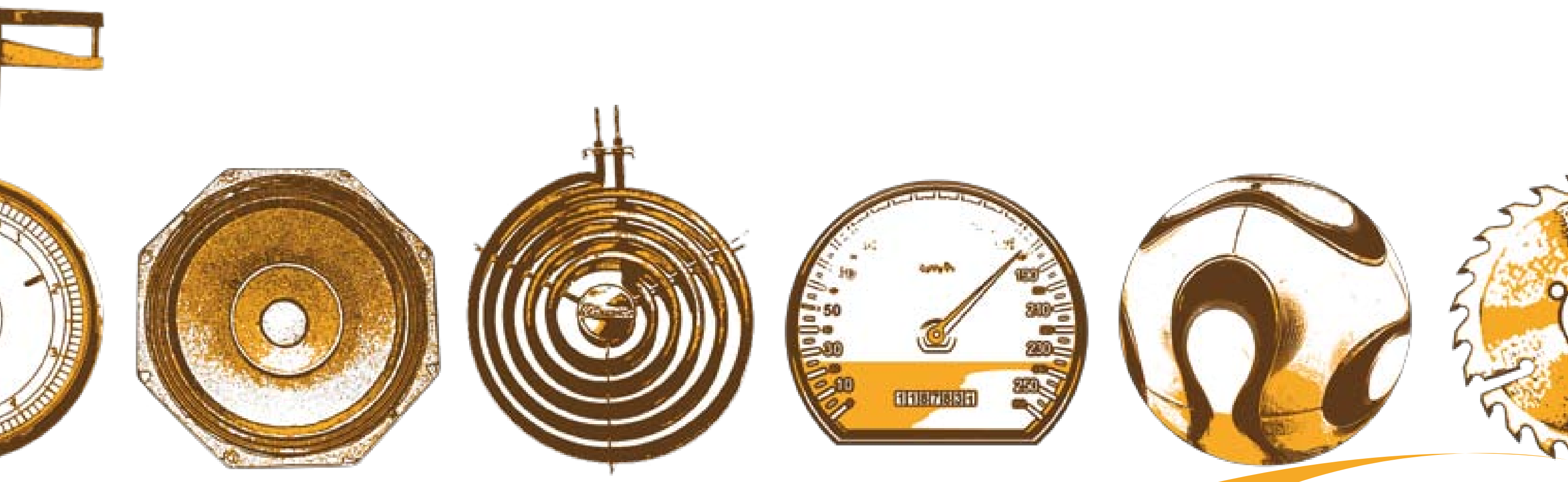
# Food and Associated Industries

10
section

## About Food and Associated Industries division

The Food and Associated Industries division protects consumers by regulating frozen and canned fish and fishery products, smoked snoek and canned meat. It achieves this by:

- Inspecting processing plants and fishing vessels used to produce, process or transport food products.
- Taking samples of food products in accredited surveillance facilities and submitting these for testing in accredited testing laboratories.
- Ensuring that non-compliant products do not enter the market and removing such products if discovered in the market.
- Conducting surveillance inspections on locally produced and imported products.
- Issuing health guarantees for fish and fishery products that are exported.
- Cooperating with other food safety regulators, both nationally and internationally, and participating in food safety-related activities.



Changing trends in the global fishing industry have in some instances heightened the risk of poor quality products being brought into South Africa, which has in turn underlined the importance of having an efficient regulator to monitor imports. At the same time, many developed nations that buy South African fish and meat products have introduced more stringent standards for incoming goods, requiring South African exporters to raise their performance. The NRCS's Food and Associated Industries division, known as FAI, is at the forefront of efforts to protect the country's citizens from unsafe food products while assisting exporters to comply with international requirements.

## Monitoring imports and exports

One of the FAI division's main priorities for the 2009/10 financial year was to prevent illegal imports and the dumping of non-complying products on the South African market. The risk of this happening has grown as a result of the depletion of local fishing resources, which has, in turn, stimulated imports of frozen and canned fish products. Increasingly, these products are being sourced from operators and countries that have not traditionally traded with South Africa. The result is an increase in the number of products rejected for safety and quality reasons, as well as in imports that have to be re-labelled to comply with local requirements.

In response to these challenges, FAI almost doubled certain inspection and product testing activities. By way of example, just over 6 800 imported product samples were selected for laboratory testing in the previous financial year. In 2009/10, the number of such samples exceeded 15 800. Similarly, where the NRCS inspected just over 10 000 consignments of imported goods in the previous financial year, more than 30 000 such consignments were inspected in 2009/10. The number of factory, vessel and retail inspections also rose from 481 in the previous year to 791 in the year under review.

As a result of this increase in inspections, the division rejected 4 186 applications from importers for compliance certificates, compared to 2 231 in the previous year. The estimated monetary value of the rejected products was a massive R110 million, compared to the R69 million worth of products rejected in 2008/09.

Where imports were found to be a danger to public health, they were destroyed. Examples pertinent to 2009/10 include prawn meat imported from India that was unfit for human consumption due to its strong ammoniacal odour, and garlic skewered prawns from Malaysia, which had an excessive count of faecal coliforms.

However, it was not just imported products that were found unfit for sale. In April 2009, FAI discovered defective cans of pilchards at a Gans Bay canning factory, which were also found at two other factories on the West Coast. The division placed an immediate embargo on the movement of cans from these factories, which instituted a voluntary product recall. Subsequently, in February 2010, FAI had more than 344 000 defective cans of pilchards destroyed.

In the case of exports, the NRCS's inspection workload was similar to that in the previous financial year. There was a slight increase in the number of health guarantees and export certificates issued, rising from almost 11 600 in 2008/09 to just over 12 500 in the year under review. Similarly, the division inspected almost 14 300 export consignments in 2009/10, a small increase on the 12 900 consignments inspected in the previous year.

The table on the following page provides a detailed breakdown of the division's market surveillance activities during the year under review.

| Technical inspections | |
|---|---|
| **1. Imports and exports** | **Number** |
| Compulsory Specifications regulated (VCs) | 6 |
| Canned imported consignments inspected | 13 039 |
| Frozen imported consignments inspected | 2 039 |
| Frozen export consignments inspected | 4 909 |
| Live export consignments inspected | 5 118 |
| Chilled fish export consignments inspected | 4 270 |
| **2. Local** | |
| Canned fish and meat products inspected | 6 648 |
| Frozen seafood products inspected | 1 061 |
| **3. Approvals** | |
| Compliance certificates issued | 21 757 |
| Health guarantees/export certificates issued | 12 568 |
| **4. Rejections** | |
| Non-compliance certificates issued – substandard | 3 636 |
| Non-compliance certificates issued – not for sale | 550 |
| Monetary value of rejections/Products not for sale | R 110 011 097 |
| **5. Inspections** | |
| Factory inspections | 300 |
| Vessel inspections | 454 |
| Retail inspections | 37 |
| **6. Sanctions** | |
| Number of illegal/non-compliant products removed from the shelves | 7 |
| **7. Customer concerns** | |
| Received | 5 |
| Handled/completed | 5 |
| Handled within specified time | 5 |
| **8. Sales permits issued** | |
| Imported canned fish products | 6 |
| Imported canned meat products | 0 |
| Imported frozen fish products | 1 |
| Local canned fish products | 14 |
| Local canned meat products | 2 |
| Local frozen fish products | 4 |
| **9. Samples to test laboratories** | |
| Samples from local manufacturers | 10 507 |
| Samples from importers | 15 822 |

## Interaction in the international arena

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

In the year under review, the FAI participated in a range of international food safety activities, including:

- The CAC meeting in Rome, Italy in June 2009.
- The CCFFP meeting in Morocco at the end of September 2009, where standards were discussed and some concluded.
- The congress of the International Association of Fishing Inspectors (IAFI), also in Morocco, where the spotlight was on illegal, uncontrolled and unregulated fishing.
- The CCFICS meeting in Australia at the beginning of March 2010, where the development of principles and guidelines for food imports and export certification were hilighted.

Through FAI, the NRCS sharpened its knowledge of the European Union's Rapid Alert System for Food and Feedback by attending an EU workshop held in Johannesburg in December 2009. The Rapid Alert System is the world's most effective system for rapid notification of direct and indirect risks to humans from food or feed produced in or imported to the EU. Considering the importance of EU countries in South Africa's trade relations, FAI's involvement in such events is crucial to the competitiveness of South African exporters of regulated products.

The NRCS continued to interact and collaborate with other nations' regulators. Among others, a visit was conducted to Malaysia and Thailand to inspect factories that export to South Africa, and a start was made in negotiating the new draft of the technical cooperation agreement between the NRCS and the Thai Department of Fisheries. The division also interacted with representatives from the regulators in Tristan da Cunha and New Zealand. Within Africa, the FAI cooperated with the NRCS's counterparts in Namibia and Kenya, focusing on training and inspection matters.

## Vibrant stakeholder engagement in South Africa

Within South Africa, FAI had a full programme of engagement with a range of industry stakeholders, including retailers, importers and industry bodies such as the SA Meat Processors Association, Deep Sea Trawling Association, the Food and Health Focus group and the Marine Aqua Culture Advisory Forum.

While much of this engagement focused on technical issues around inspections, testing, product labelling and so on, the division also used the opportunity to inform industry about new developments. An example was the impact of the Illegal, Unregulated and Unreported (IUU) fishing requirements, which came into effect in January 2010.

## Keeping our own house in order

FAI is an internationally accredited inspection body and complies fully with ISO 17020 criteria for inspection bodies. The effectiveness of the division's inspection systems and controls was confirmed through various internal and SANAS audits that took place during the year.

Intensive staff training was conducted throughout the year to keep the division's inspectors abreast of national and international developments and methodologies. All newly appointed inspectors attended training on the technology of fish and principles of canning, and all inspectors received training on quality awareness, compulsory specifications procedure and legislation such as the Health Act (Act No. 63 of 1977) and the Foodstuffs, Cosmetics and Disinfectants Act (Act No. 54 of 1972).

The division initiated reviews of SANS 585 (Frozen Fish), VC 8031: 1987 (Prawns) and SANS 885 (Processed Meat Products), which are set to become compulsory. Work also started on the development of a new compulsory specification for SANS 729 (Live Aqua-cultured Abalone).

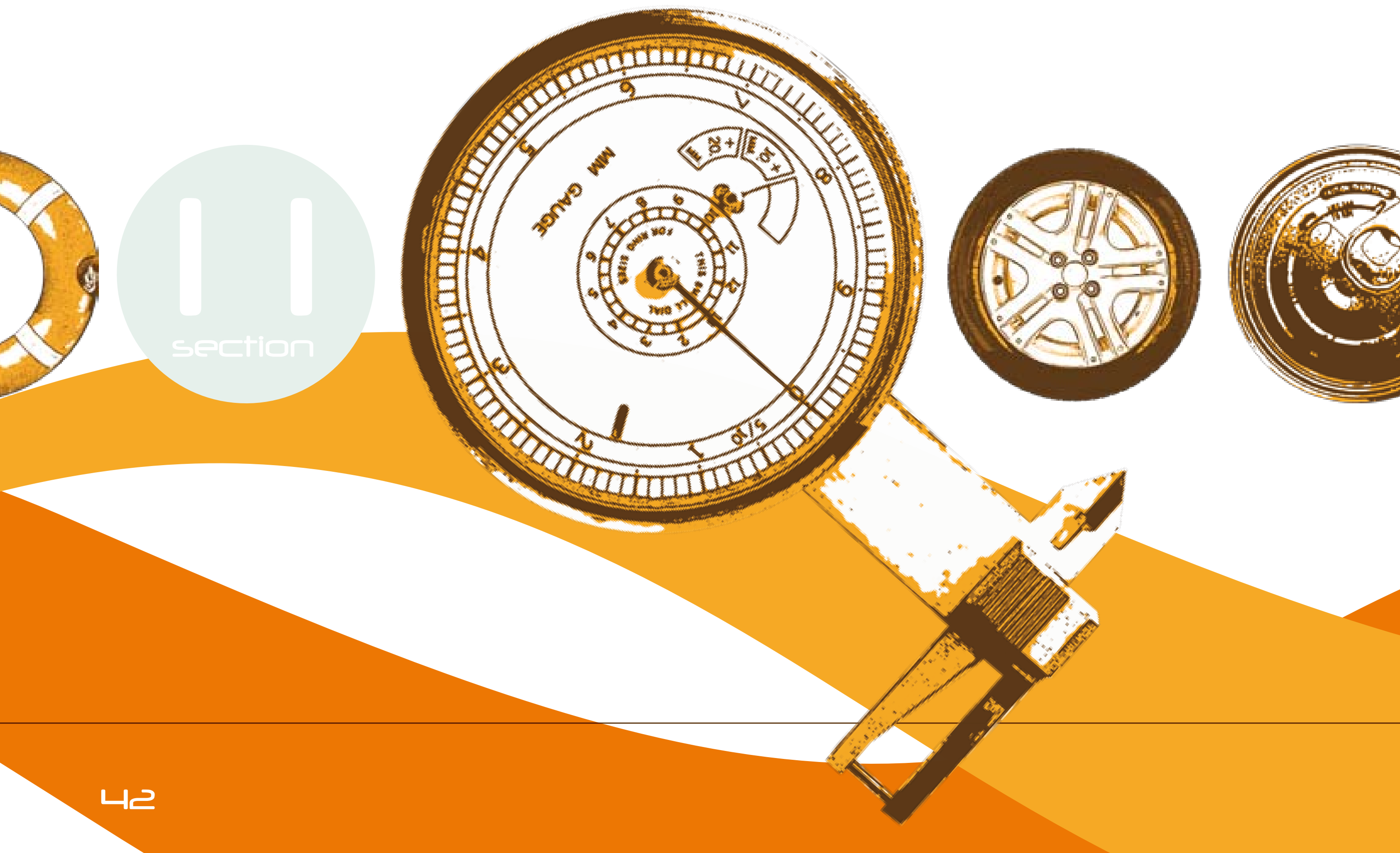
## Reaching out to consumers

Since the division's work directly affects the health and safety of millions of consumers, FAI made every effort to reach out to consumers about topical issues. In February 2010, in response to sensationalist media reports about heavy metals found in fish caught off the South Africa coastline, the NRCS reassured the public that there was no health risk whatsoever associated with eating South African-caught fish. The popular television programme Carte Blanche, broadcast by M-Net, also interviewed a divisional specialist on topics of interest to consumers. In addition, the division made a point of dealing with consumer concerns directed to it as quickly and efficiently as possible. The consumer is, after all, at the centre of everything that this division does.




# Legal Metrology

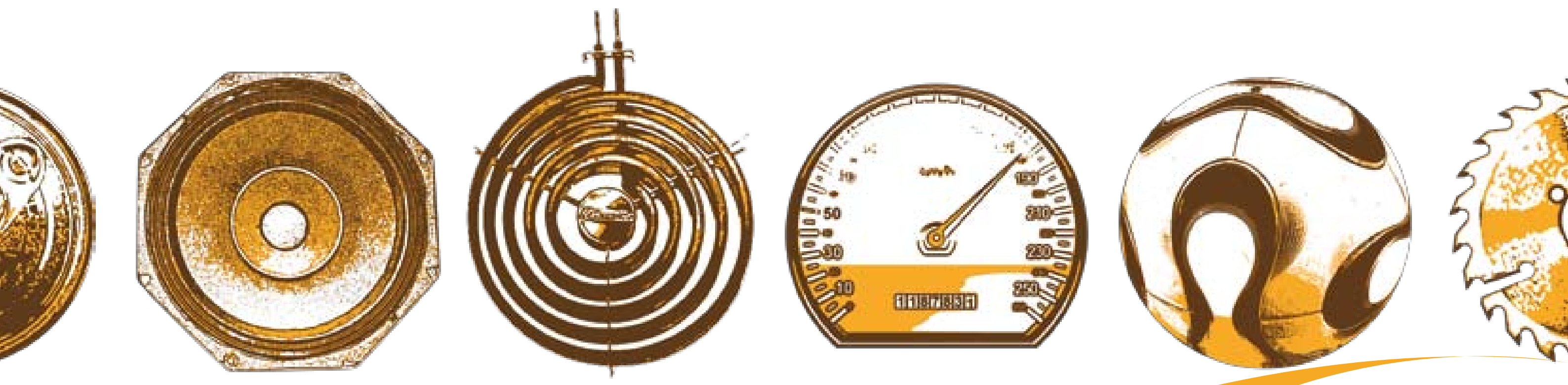
11
section



## About the Legal Metrology division

Legal Metrology protects consumers by ensuring that they receive the amounts or quantities declared on the packaging of goods offered for sale. The division achieves this by:

- Checking the accuracy and validity of the measuring instruments that manufacturers and suppliers use.
- Doing inspections to ensure that manufacturers and suppliers do not underfill (short measure) their products.
- Taking action against businesses found short measuring their products or using inaccurate measuring instruments.



There was a marked increase in the rate of non-compliance that Legal Metrology found among businesses whose goods or measuring instruments were inspected during 2009/10. Although the division conducted fewer inspections than in the previous year – owing to an ongoing lack of inspection capacity due to insufficient funding – the contravention rate was significantly higher. The division conducted 5 401 inspections during the year and found 21 083 contraventions, representing an average of four contraventions per inspection.

An analysis of the causes of non-compliance shows that short measuring was again by far the biggest reason for non-compliance, accounting for 8 717 incidents, or almost 41% of all incidents of non-compliance found during the year. This is even higher than the figure in the previous year, when 31% of contraventions were due to short measuring.

The next most common cause of contraventions in 2009/10 was unmarked goods, referring to products without the necessary labelling. For this category, there was a huge increase in contraventions, rising from 915 last year to more than 6 649. This sharp increase is cause for concern and is at odds with consumers' rights to comprehensive, correct product information.

In the case of measuring instruments, the number of contraventions increased by a relatively modest 12%, from 3 677 incidents in the previous year to 4 216. As in the previous year, the main type of contravention was the lapsing of verification status.

The tables below provide details of the main shortcomings discovered during Legal Metrology's inspections in the 2009/10 financial year.

| Goods – type of contravention | Incidents of non-compliance |
|---|---|
| Short measure | 8 717 |
| Unmarked | 6 649 |
| Incorrect pack size | 578 |
| Other | 923 |
| **TOTAL** | **16 876** |

| Instruments – type of contravention | Incidents of non-compliance |
|---|---|
| Verification status lapsed | 3 570 |
| Unapproved | 237 |
| Technical/markings | 127 |
| Accuracy | 112 |
| Other | 170 |
| **TOTAL** | **4 216** |

## Dealing with non-compliance

Legal Metrology took action against the suppliers and manufacturers concerned. The division issued a total of 27 736 embargoes, gave warnings to 2 496 business and instituted prosecution proceedings against 1 174 businesses on 3 537 counts.

These sanctions went hand in hand with the removal of non-compliant goods from the market. However, this was an area where the division's lack of capacity was apparent. The value of goods taken out of circulation in 2009/10 was estimated at only R37,1 million, compared to R79,3 million in 2008/09. This is an anomaly considering the significantly higher contravention rate found in the year under review.

As reported in the previous year, the NRCS and the National Prosecuting Authority (NPA) have agreed in principle on a memorandum of understanding to improve the processing of Legal Metrology prosecutions. The signing of such an agreement is still in the negotiation phase and it is hoped that this will be concluded in the 2010/11 financial year.

In the mean time, the NRCS continues to consistently convey the clear message that it is a criminal offence to market short measured goods to consumers. The Legal Metrology division conducted a survey into the taring of packaging material among approximately 280 outlets inspected. The results of this survey showed that the cost to the consumer due to packaging not being tared was in the region of R14 million.

## Joining forces with other regulators

Throughout 2009/10, Legal Metrology continued to work closely with other African and international regulators in the field, engaging in the following activities:

- Represented South Africa on technical committees of the International Legal Metrology Organisation (OIML) that met during the year. The head of Legal Metrology, SH Carstens, is First Vice President of the OIML, as well as the South African Representative to the CIML.
- Attended the CIML meeting in Mombasa, Kenya in October 2009, along with numerous technical committee meetings and the annual Committee on Participation Review.
- Hosted the OIML Technical Committee 6, which is developing a certificate scheme to facilitate bilateral and multilateral cooperation on trade in pre-packed commodities.
- Represented South Africa on SADCMEL and hosted its secretariat.
- Hosted the secretariat of AFRIMETS and served on its Executive Committee (Exco). Three Exco meetings were held during 2009/10 and the General Assembly was held in Magaliesburg, South Africa in July 2009.

## Stakeholder services

Within South Africa, Legal Metrology held meetings with suppliers of toilet tissue, fresh produce and poultry, as well as with measuring instrument manufacturers. Meetings with supermarket chains were also held to address legal metrology matters.

During the year, Legal Metrology again received and processed submissions for type approval, as well as applications for the calibration, verification and assessment of measuring instruments. The division completed standards for dealing with cryogenic liquids, which have been referred to in technical regulations.

## Capacity and funding constraints

As reported last year, there are several reasons for the high contravention rate among manufacturers and suppliers but one factor that has undoubtedly contributed is Legal Metrology's lack of capacity, which is in turn linked to insufficient funding. The division's client base is the largest at the NRCS, spanning the entire economy and including all manufacturers who pre-pack goods and all users of measuring instruments used to conclude trade transactions. However, it does not have the resources for the scale of inspection coverage required to combat non-compliance.

The funding model used is the main reason for the division's capacity constraints. Unlike other NRCS divisions, Legal Metrology receives its principal source of funding through a government grant, which is inadequate. The division also receives a small income from calibration, verification, assessments and type approval evaluations, but this too is insufficient. Hence, the NRCS welcomes the fact that the funding issue is being reviewed by the **dti** as part of the Legal Metrology Review that is currently underway. The Legal Metrology Review will also address the issue of a new Act and the correct resourcing of the division.

Through Legal Metrology, the NRCS remains committed to protecting consumer's rights to receive the goods and services for which they pay, as well as ensuring confidence in the measurements that South African industry makes, which will in turn lead to increased market access.

# Regulatory Research and Development (RR&D)

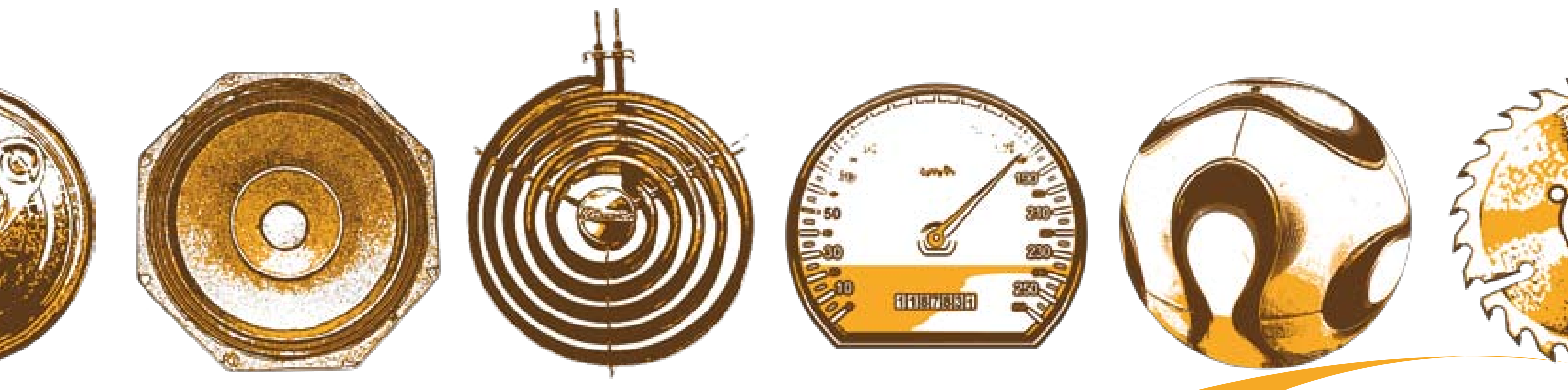
12
section

## About the Regulatory Research and Development division

Regulatory Research and Development develops and maintains the compulsory specifications and technical regulations that the line divisions use as the requirements for the products they regulate in the marketplace.

In carrying out its role, the division rigorously considers the most appropriate forms of achieving compliance or regulatory intervention, such as:

- Voluntary standards, meaning all stakeholders consent to fulfil the necessary requirements for products to be placed on the market.
- Industry self-regulation, referring to the arrangements that an organised group uses to regulate the behaviour of its members.
- Code of practice, defined as voluntary schemes established by private bodies.
- Technical regulation, which is a stringent form of control used in situations where other options are not in place or cannot ensure adequate protection of health, safety and the environment.



Throughout 2009/10, the RR&D division ensured that its work on technical regulations and compulsory specifications conformed to international best practices and the provisions of the World Trade Organization Technical Barriers to Trade (WTO TBT) Agreement. That agreement seeks to promote regulations that advance the public interest without being protectionist.

In line with international best practice, the division continued to use an 11-step model (illustrated below) for developing or reviewing regulations and specifications. On average, the lifecycle for projects developed according to this model is 18 months, meaning that not all projects registered in a particular year will be completed in that year, although all projects are managed and measured against agreed timelines.


Fig.1: Steps followed by the RR&D to develop or review a technical regulation/compulsory specification

During the year, RR&D was involved with 50 registered projects, which were at various stages of the project lifecycle. The majority of these projects entailed drafting or reviewing technical regulations or compulsory specifications. The rest dealt with research and development of structures and systems that support the functioning of the NRCS and the RR&D division.

## Risk and impact assessment

Regulatory risk and impact assessments are part of the international regulatory best practice methodology. As reported in the previous NRCS annual report, the division has been considering designing and implementing a formal risk assessment tool. This went ahead in the 2009/10 financial year, when formal processes were developed and introduced for both risk assessment and impact assessment. As the division's project model shows, these assessments are done early on in the process of developing or reviewing regulations or specifications. Assessments require extensive research to be conducted, the findings of which are then formally communicated to stakeholders.

A total of 11 risk and/or impact assessments were conducted during the year, including assessments of the following:

- Compulsory Specification for Live Aquaculture Abalone
- Compulsory Specification for Microbiological Safety Cabinets
- Compulsory Specification for Pressurised Paraffin Appliances
- Compulsory Specification for Safety and Security Glazing Materials for Buildings
- Compulsory Specification for Safety Footwear
- Technical Regulation for Accuracy of Measurement of Cryogenic Liquids.
- Technical Regulation for Taxi Meters

## Gazetted regulations and specifications

In line with the RR&D project model, the division submitted all proposed new and amended regulations and specifications to the NRCS Executive Committee, and then to the NRCS Board for submission to the **dti** for first gazetting. After allowing 60 days for national and international comments, the division submitted the proposed regulations or specifications to the **dti** for final gazetting. This means they are declared official compulsory specifications or technical regulations in accordance with the Act (Act No. 5 of 2008).

In total, 14 compulsory specifications were gazetted for the first or final time during 2009/10, as shown in the table below.

## Compulsory specifications gazetted in the 2009/10 financial year

| | Division | Title | VC Number | First gazetting | Second gazetting |
|---|---|---|---|---|---|
| 1 | Automotive | Category O1 and O2 Vehicles | 8026 | During 2008/09 (24 December 2008) | 5 February 2010 |
| 2 | Automotive | Vehicles of Category O3 and O4 | 8027 | During 2008/09 (24 December 2008) | 5 February 2010 |
| 3 | Automotive | Replacement brakes Lining Assemblies for Road Vehicles | 8053 | 31 July 2009 | Submitted to the **dti** for final gazetting |
| 4 | Automotive | Motor Vehicles of Category M1 | 8022 | 31 July 2009 | Submitted to the **dti** for final gazetting |
| 5 | Automotive | Motor Vehicles of Category N1 | 8024 | 31 July 2009 | Submitted to the **dti** for final gazetting |
| 6 | Automotive | L Category Motor Vehicles | 8098 | 31 July 2009 | Submitted to the **dti** for final gazetting |
| 7 | Electrotech | Single-Capped Fluorescent Lamps | 8091 | 31 July 2009 | Submitted to the **dti** for final gazetting |
| 8 | Electrotech | Safety of Flexible Cords for Electrical Appliances | 8006 | 13 November 2009 | To be submitted to the **dti** for final gazetting |
| 9 | Electrotech | Plugs, Socket-Outlets and Socket-Outlet Adaptors | 8008 | 13 November 2009 | To be submitted to the **dti** for final gazetting |
| 10 | Electrotech | Appliance Couplers | 8012 | 13 November 2009 | To be submitted to the **dti** for final gazetting |
| 11 | Electrotech | Safety of Starters for Tubular Fluorescent Lamps | 8039 | 13 November 2009 | To be submitted to the **dti** for final gazetting |
| 12 | Electrotech | Manual Operated Switches for Appliances | 8052 | 13 November 2009 | To be submitted to the **dti** for final gazetting |
| 13 | CMM | Preservative Treated Timber | 9092 | During 2008/09 (30 May 2008) | 3 April 2009 |
| 14 | CMM | Respiratory Protection Devices | 8072 | 1 April 2010 | Still within the comments period |

## Progress of other projects

In addition to the development of compulsory specifications, the RR&D division worked on several other projects, including one to establish an Advisory Forum for the NRCS Board. This is in accordance with section 12 of the NRCS Act. It is envisaged that the Board will approve the process at its meeting in May 2010 and that the Advisory Forum will commence with its duties in the 2010/11 financial year.

The NRCS Conformity Assessment Policy was developed and gazetted for comments on 20 November 2009. The RR&D division is currently reviewing comments received. The final policy will be made available on the NRCS website and implementation will commence during 2010/11.

RR&D is also championing projects on business improvement within the NRCS. For the first project, four staff members were trained in Sweden through the Swedish Development Cooperation Agency (SIDA). This project was successfully concluded and recommendations were made about certain business improvement modalities.

A project was initiated to investigate the turnaround time of product samples taken for compliance testing. The objective of the project is to constantly monitor the sampling turnaround time to ensure that NRCS operations do not adversely affect industry. The project also seeks to assess the level of service from the NRCS's testing service providers. This report will be tabled during the next financial year.

Regulations to the NRCS Act were developed and gazetted for comments on 5 February 2010. Comments are being reviewed and the final gazetting will take place in the next financial year.

## The National Building Regulations (NBR) and Building Standards Act

The NRCS is responsible for administering the National Building Regulations and Building Standards Act (Act No. 103 of 1977). The Architecture and Building Regulations section within RR&D continued their normal service in this domain, but also focused on the development of a framework to support the National Building Regulation (NBR) activities as required by the Act.

An urgent request was received from the **dti** to draft a regulation for energy efficiency of buildings. This called for close collaboration between the NBR Advisory Committee and the Technical Committees and Working Groups of the SABS responsible for the development of the standards that support these regulations. The NBR section convened at least 19 formal meetings before submitting the proposal to the NRCS Board for approval and to the **dti** for first gazetting on 12 April 2010.

The NBR section convened Review Board meetings and one appeal case was heard during the last quarter. A list of all review cases was compiled and a procedure developed to deal with the backlog. However, progress is being hampered due to unavailability of the applicants and their legal representatives.

## Regional and international footprint

### Regional involvement

The RR&D division actively participates in the technical regulatory framework of the Southern African Development Community (SADC). The collaboration by member countries ensures that technical infrastructure is seriously considered in an effort to bring it on par with global developments. Participation in this forum also assists in unlocking the industrial competitiveness of the region. RR&D participated in the work of the SADC SQAM structures by serving as the Regional Coordinator for the SADC Technical Barriers to Trade Stakeholders Committee (SADCTBTSC) and providing secretariat services to this committee.

RR&D's regional involvement during the period under review was concluded by successfully coordinating the SADCTBTSC activities during the SADC Annual General Meeting held in Swaziland on 23 March 2010.

Other work done in the region, especially by NRCS's Legal Metrology representative, included the following:

- Meeting with the legal consultant of Namibia's Department of Transport to discuss requirements for scales to control overloaded vehicles and to seek advice on how to proceed with Namibian regulations.
- Presenting five rounds of training to regulatory staff from various SADC countries on topics such as SADC packaging requirements and documents of the International Legal Metrology Organisation (OIML). Training was presented in South Africa, Botswana and Tanzania.
- Meeting with the SADC SQAM Secretariat to discuss arrangements for SQAM meetings.
- Attending and facilitating a meeting in Pretoria of OIML Technical Committee 6.

### International involvement

On the international front, the RR&D division participated in a workshop and policy dialogue hosted by the Organisation for Economic Cooperation and Development (OECD) in France in October 2009. The topic of the workshop was Technical Barriers to Trade: Promoting good practices in support of open markets.

In late June 2009, RR&D participated in the work of ISO Casco WG 29, and attended a meeting held in Geneva, Switzerland. The meeting dealt with the revision of ISO/IEC 65 and the project proposal that should become a new International Standard: ISO/IEC 17065 – Conformity Assessment – Requirements for Certification Bodies, Certifying Products, Services and Processes.

A staff member also led a peer evaluation to assess compliance with ISO 17025 of the quality systems of test laboratories belonging to two weighing instrument manufacturers, one in Germany and the other in Switzerland. The main objective was to evaluate impartiality of the laboratories with respect to their parent companies to ensure the validity of test results and reports issued.

## Producing appropriate regulatory responses

The projects undertaken by the RR&D division during 2009/10 reflect the NRCS's commitment to responding appropriately to the challenge of ensuring compliance of commodities that enter the market. Effectively, this response is to use regulations in the interests of public safety and health and environmental protection without becoming an obstacle to the socio-economic wellbeing for which it is intended.

## Audit and Risk Committee

The Audit and Risk Committee of the NRCS was formed by the Interim Management Committee during the latter part of 2008/09 to ensure that all financial and risk policies were in place for the newly constituted organisation. In carrying out its duties in 2009/10, the Audit Committee ensured that a Board-approved Charter was in place with which we have complied.

### Composition of the Audit and Risk Committee

The Audit and Risk Committee that was in place for the year ended 31 March 2010 consisted of three non-executive Board members and two external members. The Auditor-General was invited to attend all meetings. Two of three non-executive members of the Board and one external member constituted a quorum.

The members of the Audit and Risk Committee were:

- Ms D Ndaba (Member of the NRCS Board)
- Mr N Vermeulen (Member of the NRCS Board)
- Prof S Perumal (Member of the NRCS Board)
- Mr V Magan (Independent member and Committee Chairperson)
- Mr R Nicholls (Independent member)

### Terms of reference

Formal terms of reference were adopted and forwarded to the Board and formally approved, giving structure to the Audit Committee's activities and enabling it to prioritise it's tasks. According to the terms of reference, the Committee's main responsibilities are to:

- Review any legal matters that could have a significant impact on the NRCS's business.
- Review the adequacy of the insurance cover.
- Review risk philosophy, strategy, policies and processes recommended by the Executive Management, and monitor compliance with such policies, keeping in mind the overall risk statement and other risk disclosures in the annual report.
- Identify key matters arising from the audits of the Auditor-General and Internal Audit and satisfy itself that these are properly followed up.
- Monitor and supervise the effective functioning of Internal Audit, and ensure that the roles and functions of external audit and Internal Audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of NRCS's systems, including financial control and business risk management.
- Review accounting and auditing concerns identified as a result of internal audits, and review the adequacy of corrective action taken by management in response.
- Review the financial statements and annual report, acting under the guidance of the external auditors, to ensure that disclosure is adequate and that fair presentation is achieved.

### Meetings and review of activities

The Audit and Risk Committee met six times during the year ended 31 March 2010.

At these meetings, the Committee dealt with the following matters:

- The signing of a confidentiality agreement by all Committee members.
- The adoption of the Committee's terms of reference.
- The approval of new and revised policies and procedures for the NRCS.
- Approval of the delegation of authority
- The 'Top 20 Risk' report compiled by the Board and Executive Management's response to it.
- The Materiality and Significance document, which the Committee discussed with the Auditor-General.

## PFMA responsibilities

The Audit and Risk Committee complied with its responsibilities in terms of the Public Finance Management Act (PFMA), as amended. In discharging its PFMA duties, the Committee approved the Code of Ethics, decided on the issue of delegation and authorised the Internal Audit annual and three-year rolling plan. The Internal Audit assignment report findings and management's response were considered.

The Committee is satisfied with the content and quality of the management reports prepared by the Chief Financial Officer during the year. Furthermore, the Audit and Risk Committee is of the opinion that it has regulated its affairs and discharged its responsibilities in keeping with its terms of reference.

## Evaluation of the financial statements

The Audit and Risk Committee reviewed the audited financial statements of the NRCS for the year ended 31 March 2010. In conducting this evaluation, the Committee discussed the financial statements with the Auditor-General and the accounting authority, and discussed the Auditor-General's management report. The Committee recommended the adoption by the Board of the audited financial statements for audit by the Auditor-General.

## Effectiveness of internal controls

The Committee reviewed the internal controls and is comfortable that the risks identified have been evaluated and, where possible, controls have been strengthened to mitigate these risks. This assessment and opinion take into account that the organisation is new and only in its second year of operation.

## Effectiveness of Internal Audit

Internal Audit was established on a co-sourced basis with in-sourced staff being supplemented by outsourcing of certain planned and ad hoc assignments. In our opinion the authorised annual plan was completed and findings, management comment and agreed follow up procedures were in place and functioning. We therefore conclude that Internal Audit has been reasonably effective for the reporting year.

## Annual Report - Performance

We have reviewed the performance reports drafted for the Annual Report and have provided substantive feedback as requested.

## Conclusion

A big positive stride of improvement on last year in all service areas. Congratulations to management and staff. The performance success reported in the draft Annual Report is noted. Congratulations to all regulatory staff.

RG Nicholls
**Acting Chairperson of the Audit and Risk Committee**

## Nature of Business

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 under the NRCS Act (Act No. 5 of 2008). NRCS is mainly responsible for the administration of three Acts that reside under its jurisdiction. These include the NRCS Act, Trade Metrology Act and National Building Regulations and Standards Act. Furthermore, the organisation administers regulations that fall under the jurisdiction of other government departments, as per agreement with the respective departments.

## Objectives and Targets

The objectives and targets are outlined in detail under the corporate strategy of the organisation. The NRCS strives to ensure that all regulated commodities that are available for sale in the country comply with the compulsory specifications. Furthermore, the NRCS aims to promote fair trade with regard to all transactions that are based on weights and measurements. Almost all of the objectives have been met during the reporting period.

NRCS performance is measured through attainment of the goals set out in the strategic plan. The Regulator also places emphasis on effectiveness and efficiency. As a measure of performance in the year ending 31 March 2010, the organisation exceeded the target of 49 462 inspections by conducting 55 252 inspections.

## Financial Performance (12 months in 2010 compared to seven months in 2009)

Revenue received by the NRCS amounted to R111,3 million (2009: R57,2 million). Of this, R74,9 million (2009: R42,8 million) was received from industry through levy payments and R36,4 million (2009: R14,4 million) through other services. Grants received from the **dti** amounted to R35,9 million compared to the R17,5 million of the previous year.

An amount of R9,9 million related to other income predominantly from the settlement agreement with the SABS, compared to the R4,5 million in 2009.

A surplus of R6,6 million (2009: R0,9 million) was realised during the 12 months ended 31 March 2010. The cash at hand at the end of the year amounted to R30,6 million in comparison with R 17,1 million in the previous year.

## Events Subsequent to the Statement of Financial Position

The NRCS came to an agreement with the SABS whereby the NRCS will have the benefit of renting the current premises from the SABS at no cost for the following year ending on 31 March 2011 and thereafter at 50% of the rental cost for a further three years ending on 31 March 2014. The parking bays will be charged at a nominal rate up to 31 March 2014. In Addition, a cash amount of R5 million will be paid to the NRCS in the coming financial year.

The parties also agreed that a SABS property, Erf 2901 Mount Road, situated in the municipality of Port Elizabeth in extent of 1,6 486 hectares/square metres per title deed T48253/92, will be transferred to the NRCS. The property is valued at R6,5 m.

## The Board as Controlling Body

The Board of Directors of the National Regulator of Compulsory Specifications (NRCS) was appointed by the Minister of Trade and Industry on 1 March 2009; however, NRCS was informed of this during May 2009. The Board took over from the Interim Management Committee that oversaw the NRCS for the initial period after its establishment on 1 September 2008.

In terms of the Board's Charter, the Board should provide leadership and vision to the NRCS in a way that will enhance compulsory specifications and other regulatory value to benefit the shareholder.

The first NRCS Board Meeting took place on 26 May 2009. At that meeting, the Board established the following sub-committees to assist it in the performance of its functions: Audit and Risk Committee, Remuneration Committee (REMCO) and the Technical Committee.

The Board met eight times during the year, with attendance as follows:

| Member | 26 May 2009 | 18 June 2009 | 28 July 2009 | 26 & 27 Aug 2009 | 21 Sept 2009 | 22 Oct 2009 | 1 Dec 2009 | 16 Feb 2010 |
|---|---|---|---|---|---|---|---|---|
| Ms S Maziya (Chairperson) | ✓ | ✓ | ✓ | ✓ | × | ✓ | ✓ | ✓ |
| Ms SE Moolman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Adv. D Block | ✓ | ✓ | × | ✓ | × | ✓ | × | ✓ |
| Prof. S Perumal | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms FA Melato | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms D Ndaba | × | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr N Vermeulen | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr S Zikode | × | ✓ | × | × | ✓ | × | ✓ | ✓ |

## Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the NRCS Board in fulfilling its oversight responsibilities towards the NRCS in terms of:

- Financial management and other reporting practices.
- The internal control structure and management of risks.
- Compliance with laws, regulations and ethics.

The Committee meets at least once quarterly, prior to the Board meeting.

The Audit and Risk Committee consists of three Board members and an independent member. The Board representatives are Ms D Ndaba, Mr N Vermeulen and Prof S Perumal.

Mr Viren Magan and Mr Rowan Nicholls were appointed by the Chairperson of the NRCS Board on 20 August 2009 as independent members of the Audit and Risk Committee of NRCS. Mr Magan was appointed as Chairperson of the Audit and Risk Committee by the Chairperson of the NRCS Board on 1 December 2009.

The Audit and Risk Committee held six meetings during the year, with attendance as follows.

| Member | 24 July 2009 | 16 Sep 2009 | 26 Oct 2009 | 19 Nov 2009 | 27 Jan 2010 | 26 Feb 2010 |
|---|---|---|---|---|---|---|
| Mr N Vermeulen | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms D Ndaba | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Prof S Perumal | ✓ | ✓ | × | ✓ | × | ✓ |
| Mr Viren Magan | × | ✓ | ✓ | × | ✓ | ✓ |
| Mr Rowan Nicholls | × | ✓ | ✓ | ✓ | ✓ | ✓ |

## Remuneration Committee

The primary role of the Remuneration Committee is to assist the Board in discharging its responsibilities with regards to matters related to remuneration and human resources. Among other things, it recommends remuneration and HR-related policies for approval by the Board. This Committee is subject to regular evaluation by the Board to ascertain the Committee's performance and effectiveness.

The Committee meets at least once a quarter, prior to the Board meeting. The chairperson of the Committee is Adv. Derick Block. The other members of the Committee are Ms SE Moolman, Ms D Ndaba and Prof. S Perumal.

The Remuneration Committee met four times during the year, with attendance as follows.

| Member | 8 Sept 2009 | 28 Nov 2009 | 14 Jan 2010 | 15 Feb 2010 |
|---|---|---|---|---|
| Adv D Block | ✓ | ✓ | ✓ | ✓ |
| Ms SE Moolman | ✓ | ✓ | ✓ | ✓ |
| Ms D Ndaba | × | ✓ | ✓ | ✓ |
| Prof S Perumal | ✓ | ✓ | ✓ | ✓ |

## Technical Committee

This Committee operates in accordance with the NRCS Act. The purpose of the Committee is to assist the NRCS Board in fulfilling its corporate governance responsibilities in respect of NRCS technical and related matters.

Briefly, the Committee is responsible for the following:

- Considering and advising the Board on the proposed compulsory specifications or proposed amendments to compulsory specifications in terms of section 13 of the National Regulator for Compulsory Specifications Act ("NRCS Act").
- Recommending to the Board what action should be taken on non-compliant commodities or products in terms of section 15(3) of the NRCS Act.
- Considering and advising the Board on proposed Regulations in terms of Section 36 of the NRCS Act.
- Considering and advising the Board on technical and related matters as outlined in the Trade Metrology Act and Building Standards Act.

The Committee meets at least once a quarter, prior to the Board meeting.

Four members of the Board serve on the Technical Committee. They are the Committee Chairperson, Mr Nicholas Vermeulen, Adv. D Block, Ms F Melato and Ms SE Moolman. It was only decided on 20 October 2009 that Adv. Block should sit on the Technical Committee and hence his first meeting was on 16 March 2010.

The Technical Committee held four meetings during the year, with attendance as follows.

| Member | 23 July 2009 | 15 Sept 2009 | 20 Oct 2009 | 16 Mar 2010 |
|---|---|---|---|---|
| Mr N Vermeulen | ✓ | ✓ | ✓ | ✓ |
| Adv D Block | × | × | × | ✓ |
| Ms FA Melato | × | ✓ | ✓ | ✓ |
| Ms SE Moolman | ✓ | × | ✓ | ✓ |

## Internal Audit

The NRCS Internal Audit department was established on 1 June 2009 with the appointment of the Head of Internal Audit, followed in November 2009 by the appointment of a trainee Internal Auditor and an Auditor. The Internal Audit department functions in accordance with the Internal Audit Charter, approved by the NRCS Audit and Risk Committee. Internal Audit operates independently of Management, reporting functionally to the Audit and Risk Committee and administratively to the CEO. In terms of the Charter, Internal Audit is responsible for developing and executing the NRCS internal audit plans in order to provide assurance to management and the Audit and Risk Committee on the systems of internal control, risk management and governance.

The purpose of the Internal Audit is to assist management in identifying weaknesses in the aforementioned systems within NRCS and to provide recommendations on how to deal with any such weaknesses. This is done primarily through auditing systems and processes within business areas, as per the internal audit plan, and issuing reports that detail the results of the audits to management and the Audit and Risk Committee. When conducting audits, Internal Audit follows methodologies based on the Institute of Internal Audit's (IIA) International Standards for the Professional Practice of Internal Auditing and Treasury Regulation 27.2.6.7

The risk-based Internal Audit Plan for 2009/10 was developed in accordance with the IIA's standards and the relevant Treasury Regulations. This plan was approved by the Audit and Risk Committee on 24 July 2009. Internal

Audit enjoys a healthy working relationship with all its stakeholders and continues to build its operational efficiencies through staff training.

The department conducted nine planned audits and five ad hoc assignments requested by management and the Audit and Risk Committee. Overall, the audit results indicated a satisfactory control environment. Where weaknesses or gaps were identified, management committed itself to implementing agreed actions to ensure improvement.

During the year under review the Internal Audit department fulfilled all its responsibilities as required by the PFMA and Treasury Regulations.

## Fraud Prevention

NRCS has a zero tolerance policy on fraud, corruption and misuse of public resources. NRCS launched an Ethics Hotline on 12 October 2009 in a bid to root out corruption, fraud and misuse of public resources. The hotline, which is operated through an independent conduit, guarantees anonymity to callers and is manned 24 hours. Calls to the hotline are free. All cases reported through the hotline were properly investigated and, where applicable, disciplinary action was taken by management.

This hotline has been used for feedback of complaints and non-compliance observations from regulated industry members. This is being encouraged and will be further promoted in the future as at provides for anonymous reporting of this nature.

During the 2009/10 period, the Whistle Blower policy, Fraud policy and Fraud Prevention plan were drafted, approved and implemented.

## Property, Plant and Equipment

The NRCS implemented a fixed asset management policy in 2010 in line with GRAP 16. The assessment of useful life and residual value of property, plant and equipment were evaluated by management and adjustments made, which are reflected in the financial statements. This will be assessed annually.

## Profile of Employees

| Demographic Representation | | | | |
|---|---|---|---|---|
| Black | Coloured | Indian | White | Women |
| 170 | 42 | 13 | 71 | 109 |
| 58% | 14% | 4% | 24% | 36% |

| Age spread | Age spread % | Black | Col-oured | Indian | White | Total |
|---|---|---|---|---|---|---|
| >27 | 7% | 11 | 2 | 4 | 3 | 20 |
| 27-34 | 44% | 104 | 16 | 8 | 2 | 130 |
| 35-46 | 27% | 41 | 15 | 1 | 23 | 80 |
| 47-58 | 17% | 13 | 9 | 0 | 28 | 50 |
| 59-67 | 6% | 1 | 0 | 0 | 15 | 16 |
| | | 58% | 14% | 4% | 24% | |

## Materiality Framework

The NRCS, in line with the PFMA, has adopted a materiality framework in the current financial year.

## Risk Assessment and Internal Controls

The NRCS endeavours to minimise risk by ensuring that appropriate systems, policies, personnel and controls are in place throughout the organisation. The NRCS Board approved the risk management policy and risk strategy that will direct the enterprise risk management. A risk assessment exercise was carried out in the fourth quarter of the financial year with the assistance of an external service provider. During this process, 15 strategic risks were identified and the organisation is managing these risks on an ongoing basis.

The Audit and Risk Committee played a significant role in the risk assessment and it anticipated that in the next financial year, the organisation will manage all risks effectively with the appointment of a Risk Officer and the guidance from Internal Audit.

The effect of limited financial and skilled manpower resources will be quantified on an estimation basis in the new reporting year to allow the Board an opportunity to accept the non-compliance risks or maturate for additional resource by which they can be further mitigated.

## Conclusion

The governance structures and internal control mechanisms of the NRCS are working well, ensuring that oversight of the organisation is sufficiently rigorous to identify and address any weaknesses. The NRCS has also strengthened its risk management and implemented effective measures to address and prevent misuse of resources. Furthermore, steps are being taken to ensure that the organisation is able to continue attracting and retaining skilled, competent employees committed to protecting the interests of consumers and promoting fair trade in an efficient, inclusive economy.

## Board Appreciation

The Board notes with appreciation that the 2009/2010 audited annual financial statements of the NRCS received an unqualified audit opinion from the Auditor-General's office.

## Board Approval

The Annual Financial Statements for the 12-month period ended 31 March 2010, set out on pages 64 to 100, have been approved by the Accounting Authority on 28 July 2010 and are signed on their behalf by:

Chairperson
**Ms Savannah Maziya**

Chief Executive Officer
**Moses Moeletsi**

## Business Plan Implementation Reporting Matrix

| Type of Activity | Activity | Targets/Outputs to be delivered by 31 March 2010 | Performance Indicators | Annual Progress | Reason for variance/Challenges |
|---|---|---|---|---|---|
| 1. Administer and maintain compulsory specifica-tions as per NRCS Act | Market surveillance | 49 462 inspections | Number of inspections | 55 252 | Seasonal variation in terms of fisheries led to an increase in number of inspections within the Foods and Associated Industries |
| | Administer Directives for non-compliant products | Issued within 72 hours | Turnaround times | 56% processed within the set timeframes | Directives processed prior to delegation of authority to general managers were concluded in the CEO's office resulting in backlogs |
| | Stakeholder communication | 16 overall media coverage per annum | Number of overall media coverage | 21 | High levels of non-compliant products found necessitated the need for higher than planned communications with stakeholders |
| | Compulsory Specifications | 8 | Number of Compulsory Specifications | 8 | |
| | Accreditation and third party recognition | Obtain accreditation for Automotive and CMM divisions and maintain accreditation in FAI and Electro-technical | Number of divisions | All divisions assessed by SANAS and recommended for accreditation | Automotive and CMM Divisions awaiting certificates from SANAS |
| | Approvals | 21 days | Number of days to process approvals | 90% processed within 21 days | Due to lack of sufficient documentation to process |
| 2. Administer Technical Regulations as per Trade Metrology Act | Market surveillance | 6 687 | Number of Inspections | 5 401 | Due to uncertainty and lack of sufficient funding for Legal Metrology, the division could not fill vacancies as planned |
| | Embargos for non-compliant products | Issued within 72 hours | Turnaround time | Issued within 72 Hours | |
| | Stakeholder communication | 4 overall media coverage per annum | Number of overall media coverage | 2 | Lack of human resources and funding hampered service delivery resulting in less media coverage |
| | Type approval | Issued within 120 days | Turnaround times | 75% processed within 120 days | Insufficient human resources within the Legal Metrology division as a result of uncertainty in funding |
| | Accreditation | Maintain accreditation | Inspection, calibration and type approval | Accreditation maintained | |
| 3. Administer Building Regulations | Administer Review Board | 90 days | Turnaround times | 50% of the processed Review Board cases concluded within 90 days | Affected by lack of human resources to perform the functions partly in the 1st and 2nd quarters |
| | Building inspections | 21 days | Turnaround times | No request for inspection lodged | |
| | Stakeholder communication | 2 | Turnaround times | 1 | |

| Type of Activity | Activity | Targets/Outputs to be delivered by 31 March 2010 | Performance Indicators | Annual Progress | Reason for variance/Challenges |
|---|---|---|---|---|---|
| 4. Good corporate governance | Complete disclosure of financial information | Monthly/Quarterly/ Annual | Turnaround times | All quarterly reports submitted | |
| | Implement financial policies and procedures | 30 March 2010 | Turnaround times | Continuously implemented NRCS financial policies | |
| | Budget control and transaction management | Monthly/Quarterly/ Annual | Turnaround times | Monthly monitoring achieved | |
| | Management of NRCS Assets | Monthly monitoring | Updated Asset Register | Continuously updated Asset Register and asset verification completed at the end of the year | |
| | Cash flow management | Monthly monitoring | Turnaround times | Monthly monitoring achieved | |
| | Review and implement NRCS policies and procedures | 10 | Number of policies | 20 reviewed within the year | New polices were identified as high priority to minimise risk of non-compliance to the legislative requirements, necessitating the need to develop and implement more policies |
| | Develop and implement talent management plans | 30 March 2010 | Roll out plan | Plan partly rolled out | Due to lack of sufficient funds and human resources, the training plan could not be fully implemented |
| | Develop and implement EE plan | 40% professionals and maintain all other categories | % achievement | 40% achieved within the professionals category and maintain all other areas | |
| | Develop and implement succession plans | 30 September 2009 | Policy and plan developed | In progress | Lack of in-house skills to develop the plans |
| | Develop and implement performance management system | 30 September 2009 | Performance agreements submitted and evaluations completed | In progress | Lack of in-house skills to develop a new performance system |

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL REGULATOR FOR COMPULSORY SPECIFICATIONS FOR THE YEAR ENDED 31 MARCH 2010

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

I have audited the accompanying financial statements of the National Regulator for Compulsory Specifications, which comprise the statement of financial position as at 31 March 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 64 to 100.

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

The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Regulator for Compulsory Specifications (NRCS) as at 31 March 2010, and its financial performance and its cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the PFMA.

## Emphasis of matter

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

## Irregular expenditure

As disclosed in note 23 to the financial statements, irregular expenditure to the amount of R5 550 683 was incurred as the procurement policy adopted by the entity was not in line with the supply chain management prescripts determined by the National Treasury.

# REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and General Notice 1570 of 2009, issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

## Findings

## Predetermined objectives

## Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the entity reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

## Planned and reported performance targets not specific and time bound

For the selected objectives (namely, to administer and maintain compulsory specifications per NRCS Act and administer technical regulations as per Trade Metrology Act), 50% and 40% of the planned and reported targets respectively were not:

- specific in clearly identifying the nature and the required level of performance; and
- time bound in specifying the time period or deadline for delivery.

## Planned and reported indicators/measures not well defined

For the selected objective (namely, to administer technical regulations as per Trade Metrology Act), 50% of the planned and reported indicators/measures were not clear with an unambiguous definition to allow for data to be collected consistently.

## Compliance with laws and regulations

No matters to report.

## INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

## Leadership

The NRCS did not have sufficient monitoring controls to ensure proper implementation of the overall process of planning.

Auditor - General.

Pretoria
31 July 2010

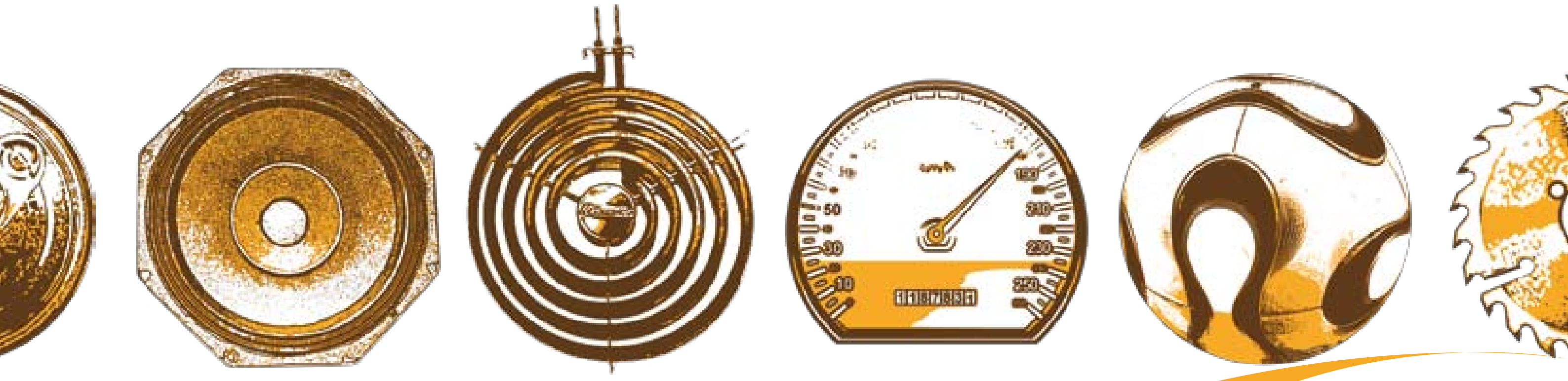
AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# Annual Financial Statements

18 section

# Annual Financial Statements
for the year ended 31 March 2010



# Statement of Financial Performance

for the year ended 31 March 2010

| | Notes | 2010<br>R<br>(12 months) | 2009<br>R<br>(7 months) |
|---|---|---|---|
| **Revenue** | | **111,283,726** | **57,210,824** |
| Levies for compulsory specifications | | 74,863,472 | 42,814,574 |
| Services rendered | | 36,420,254 | 14,396,250 |
| **Other income** | 2 | **9,922,530** | **4,457,639** |
| | | 121,206,256 | 61,668,463 |
| **Expenditure** | | **(150,848,396)** | **(78,467,707)** |
| Advertising and marketing expenditure | | (1,600,509) | (1,707,512) |
| Amortisation of intangible assets | 10 | (790,064) | (298,130) |
| Contract services | 3 | (9,208,839) | (4,136,622) |
| Depreciation | 9 | (2,783,975) | (910,627) |
| Employee benefit expenditure | 4 | (100,252,112) | (50,616,614) |
| Office rentals and other operating lease expenses | 5 | (11,726,860) | (5,961,260) |
| Tests and sampling | | (5,657,833) | (3,756,152) |
| Travel expenditure | | (7,272,940) | (4,875,332) |
| Other expenditure | 6 | (11,555,264) | (6,205,458) |
| **Operating deficit before government grants and core funding** | | **(29,642,140)** | **(16,799,244)** |
| Government grants and core funding | | 35,933,000 | 17,495,246 |
| **Operating surplus for the period** | | **6,290,860** | **696,002** |
| Interest received | 7 | 911,943 | 403,743 |
| Finance cost | 8 | (541,486) | (164,291) |
| **Surplus for the period** | 25 | **6,661,317** | **935,454** |

# Statement of Financial Position

at 31 March 2010

| | Notes | 2010 R | 2009 R |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **10,844,658** | **11,718,869** |
| Property, plant and equipment | 9 | 9,240,660 | 9,386,534 |
| Intangible assets | 10 | 1,281,998 | 2,020,335 |
| Deposits | | 322,000 | 312,000 |
| **Current assets** | | **37,920,468** | **24,710,136** |
| Trade and other receivables from exchange transactions | 11 | 7,303,104 | 7,568,102 |
| Cash and cash equivalents | 12 | 30,617,364 | 17,142,034 |
| **Total assets** | | **48,765,126** | **36,429,005** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | **14,452,832** | **13,614,809** |
| Interest bearing borrowings | 13 | 1,605,673 | 2,763,709 |
| Employment benefit obligations | 14 | 12,847,159 | 10,851,100 |
| **Current liabilities** | | **26,715,523** | **21,878,742** |
| Trade and other payables from exchange transactions | 15 | 24,095,348 | 19,416,749 |
| Interest bearing borrowings | 13 | 1,664,175 | 1,266,424 |
| Employment benefit obligations | 14 | 956,000 | 781,000 |
| Income received in advance | | - | 414,569 |
| **Total liabilities** | | **41,168,355** | **35,493,551** |
| **NET ASSETS** | | **7,596,771** | **935,454** |
| REPRESENTED BY: | | | |
| **Accumulated surpluses** | | **7,596,771** | **935,454** |

# Statement of Changes in Net Assets
for the year ended 31 March 2010

| | Accumulated surpluses R |
|---|---|
| Opening balance at 1 September 2008 | - |
| Surplus for the period (7 months) | 935,454 |
| Accumulated surplus at 31 March 2009 | **935,454** |
| Surplus for the period (12 months) | 6,661,317 |
| Accumulated surplus at 31 March 2010 | **7,596,771** |

# Cash Flow Statement

for the year ended 31 March 2010

| | Notes | 2010<br>R<br>(12 months) | 2009<br>R<br>(7 months) |
|---|---|---|---|
| **Cash flows from operating activities** | | **(24,088,921)** | **(12,677,199)** |
| Cash received from customers | | 111,044,845 | 49,962,473 |
| Cash paid to suppliers and employees | | (135,504,222) | (62,879,124) |
| Cash generated from operations | 16 | (24,459,377) | (12,916,651) |
| Interest received | | 911,943 | 403,743 |
| Finance cost | | (541,486) | (164,291) |
| **Cash flows from investing activities** | | **(1,941,018)** | **(3,404,923)** |
| Purchase of property, plant and equipment | 9 | (1,879,292) | (849,458) |
| Purchase of intangible assets | 10 | (51,727) | (2,318,465) |
| Operating lease deposits paid | | (10,000) | (237,000) |
| **Cash flows from financing activities** | | **(1,427,731)** | **(272,167)** |
| Repayment of interest bearing borrowings | | (1,427,731) | (272,167) |
| **Net (decrease)/increase in cash and cash equivalents before external funding** | | **(27,457,670)** | **(16,354,289)** |
| Cash received from government | | 35,933,000 | 17,495,246 |
| Cash received with operations transferred from SABS | 19 | 5,000,000 | 16,001,077 |
| **Net (decrease)/increase in cash and cash equivalents** | | **13,475,330** | **17,142,034** |
| Cash and cash equivalents at beginning of the period | | 17,142,034 | - |
| **Cash and cash equivalents at the end of the period** | 12 | **30,617,364** | **17,142,034** |

## 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual financial statements are set out below and are consistent with those of the previous year:

### 1.1 Basis of preparation

The Annual Financial Statements have been prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 55 of the Public Finance Management Act (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 period, 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.

#### 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 base.

#### 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.

#### Judgements, estimates and assumptions

The preparation of annual financial statements in conformity with GRAP requires management to make judgements, 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.1 Basis of preparation (Continued)

#### Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, as set out below, management has made the following judgements that can significantly affect the amounts recognised in the financial statements:

*Property, plant and equipment*

The carrying amounts of property, plant and equipment are affected with the annual review of useful lives, current residual values and depreciation methods. Property, plant and equipment are also affected with the determination of the fair value of certain assets on initial recognition.

*Intangible assets*

The carrying amounts of intangible assets are affected with the annual review of useful lives, current residual values and amortisation methods.

*Non-financial assets*

The entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

*Trade and other receivables from exchange transactions*

Provision for impairment as well as subsequent measurement of trade and other receivables at amortised cost, affect the line item and disclosures of trade and other receivables from exchange transactions.

*Employee benefit obligations*

The entity makes use of external actuaries to limit the risk that significant judgements and estimates will differ materially from actual results.

### 1.2 Foreign currency translation

#### Functional and presentation currency

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ('the functional currency'). The financial statements are presented in Rands, which is the functional currency of the entity.

#### Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of financial performance.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, all costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and any initial estimate of costs to dismantle and remove an asset. Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. If a replacement part is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised. Repair and maintenance expenditure is recognised as an expense in the year it is incurred.

Depreciation on property, plant and equipment is calculated using the straight-line basis over the estimated useful lives of each part of property, plant and equipment from when it is available to operate as intended by management. It is the depreciable amount (cost minus residual value) that is depreciated over the assets' useful lives. The estimated useful lives are as follows:

| | Years |
|---|---|
| Furniture and office equipment | 1 - 10 |
| Laboratory equipment | 2 - 10 |
| Operating lease improvements | 3 - 4 |
| Vehicles | 2 - 5 |

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Where significant parts (components) of an item of property, plant and equipment have different useful lives or depreciation methods to the item itself, these parts are accounted for as separate items of property, plant and equipment.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in operating surplus.

The carrying amount of an item or part of an item of property, plant and equipment shall be derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition of items of property, plant and equipment are included in the statement of financial performance. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

#### Transitional provisions

For property, plant and equipment that were acquired at no cost, or aquired for a nominal cost, the cost is the property, plant and equipment's fair value as at the date of adoption of the transisional provision in Directive 2 for GRAP 17. When adopting Directive 2, an entity may control property, plant and equipment that it has not previously recognised, or of which the cost of acquisition is not known. Directive 2 allows entities to initially recognise property, plant and equipment at cost or fair value as at the date of adoption of this Standard in such circumstances. The entity did recognise certain property, plant and equipment at their fair values, making use of the transitional provisions listed in Directive 2. 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.4 Intangible assets

Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation is charged to the statement of financial performance on a straight-line basis over the estimated useful life of the asset. Amortisation methods and periods are assessed annually. The estimated useful lives are as follows:

| | Years |
|---|---|
| Computer software | 3 |

### 1.5 Financial instruments

Financial assets and liabilities are recognised on the entity's statement of financial position when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus directly attributable transaction costs, except for financial assets or financial liabilities carried at fair value through surplus or deficit, which do not include directly attributable transaction costs. Financial instruments are subsequently measured as set out below:

#### Deposits and trade and other receivables from exchange transactions

Deposits and trade and other receivables from exchange transactions are subsequently measured at amortised cost using the effective interest method. For financial assets carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The impairment loss is offset against deposits or trade and other receivables. The amount of the loss is recognised in surplus or deficit.

#### Cash and cash equivalents

Cash and cash equivalents at amortised cost and comprise cash at banks and on hand.

#### Interest bearing borrowings

Borrowings are subsequently measured at amortised cost using the effective interest method.

#### Trade and other payables from exchange transactions

Trade and other payables from exchange transactions are subsequently measured at amortised cost using the effective interest method.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.5 Financial instruments (Continued)

#### 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.

#### Derecognition

Financial assets or parts thereof are derecognised when the contractual rights to receive the cash flows have been transferred or have expired or if substantially all the risks and rewards of ownership have passed. Where substantially all the risks and rewards of ownership have not been transferred or retained, the financial assets are derecognised if they are no longer controlled. However, if control in this situation is retained, the financial assets are recognised only to the extent of the continuing involvement in those assets. On derecognition of a financial asset, the difference between:

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

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

#### Impairment of financial assets

Financial assets, other than those financial assets classified as fair value through surplus and deficit, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

### 1.6 Impairment of non-financial assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount (i.e. the higher of its fair value less costs to sell and its value in use) of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of financial performance.

Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.6 Impairment of non-financial assets (Continued)

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, if related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the statement of financial performance. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### 1.7 Employee benefits

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

Post employment benefit plans are arrangements under which the entity provides post-employment benefits to employees. Defined contribution benefit plans are where there are no legal or constructive obligations 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. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Contributions to defined contribution plans are recognised in surplus or deficit as they accrue.

The cost of providing defined benefits is determined using the projected unit credit method. Actuarial valuations are performed annually.

Actuarial gains and losses, i.e. differences between the previous actuarial assumptions and what actually occurred and changes in actuarial assumptions, that exceed 10% of the greater of the present value of the entity's post-employment obligations or the fair value of plan assets are amortised over the lesser of 10 years or the expected average remaining working lives of the participating employees.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in surplus or deficit when the entity is demonstrably committed to the curtailment or settlement.

Past service costs, i.e. increases or decreases in the present value of the defined benefit obligation for employee service in prior periods resulting from the introduction of, or changes to, post-employment benefits or other long-term employee benefits, are recognised immediately in surplus or deficit to the extent that the benefits have already vested. Otherwise they are amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and the unrecognised past service costs and reduced by the fair value of plan assets. Any asset is limited to the unrecognised actuarial losses, plus the present value of available refunds and reductions in future contributions to the plan.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.8 Leases - the NRCS is the lessee

Leases of property, plant and equipment, where the entity assumes substantially all the risks and rewards of ownership, are classified as finance leases. All other leases are classified as operating leases.

Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the future minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset on the same basis as owned assets, or where shorter, the term of the relevant lease agreement. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic interest on the remaining balance of the liability.

Combined leases with land and building components are considered separately for classification purposes. At inception of the lease, the minimum lease payments are allocated to the components in proportion to the relative fair values of the leasehold interests in the land and buildings element of the lease. If this can not be measured reliably, then the lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease. The aggregate benefit of lease incentives received is recognised as a reduction of rental expense over the lease term, on a straight-line basis.

### 1.9 Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably and  when it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue is measured at the fair value of the consideration received or receivable for services rendered and levies of the entity's activities. Revenue is reduced for customer returns, rebates and other similar allowances. All revenue recognised was for exchange transactions.

Revenue from services rendered is recognised when the cash is received or receivable. These receipts are non-refundable. Revenue from levies is recognised upon the earliest receipt of the completed production levy return of compulsory specification or cash . Companies produce and complete a levy return of their production, which is invoiced by NRCS.

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and that the entity will comply with all covenants. Grants for the purpose of giving immediate financial support with no future-related costs are recognised in the statement of financial performance in the period in which they become receivable. There were no conditional government grants received in advance.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. Initially a receivable is recognised at fair value. In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.10 Taxation

The NRCS has been exempted from income tax in terms of the provisions of section 10(1)(cA)(I) of the Income Tax Act 58 of 1962.

### 1.11 Transfer of functions from related party

Assets and liabilities are initially brought in 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.

### 1.12 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA.

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

All irregular, fruitless and wasteful expenditures are charged against the respective class of expenditure in the period in which they are incurred and disclosed in a note in the period that it is identified.

### 1.13 Comparative amounts

Comparative amounts have been provided for seven months since the previous year was the the entity's first seven months of operations.

### 1.14 Statements of GRAP issued, but not yet effective

The following statements and interpretations were issued, but are not yet effective and have not been applied in preparing the financial statements of the entity. The effect of the changes to the financial statements of NRCS, if any, once implemented, will not be material.

The 8 additional standards of GRAP are as follows:
GRAP 18 - Segment Reporting
GRAP 21 - Impairment of non-cash-generating assets
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 25 - Employee Benefits
GRAP 26 - Impairment of cash-generating assets
GRAP 103 - Heritage Assets
GRAP 104 - Financial Instruments

| | | 2010 R (12 months) | 2009 R (7 months) |
|---|---|---|---|
| **2.** | **OTHER INCOME** | | |
| | Included in other income were the following: | | |
| | Surplus with property, plant and equipment recognised at fair value (transitional provisions: Directive 2) | 312,808 | - |
| | Surplus on the capitalisation of full depreciated property, plant and equipment transferred from SABS | 50,231 | 582,058 |
| | Surplus on transfer of functions from SABS (note 19) | 9,550,404 | 3,847,093 |
| | - Fair value of assets transferred | 5,000,000 | 21,174,518 |
| | - Fair value of liabilities transferred | - | (17,327,425) |
| | - Fair value of non-exchange revenue | 4,550,404 | - |
| | Realised net foreign exchange profit | 3,220 | - |
| **3.** | **CONTRACT SERVICES** | | |
| | Contract services comprises: | 9,208,839 | 4,136,622 |
| | - Risk management and levy audits | 2,653,269 | 536,000 |
| | - IT Services | 4,846,099 | 2,919,309 |
| | - Accreditation | 324,287 | 199,400 |
| | - Other contractual services | 1,385,184 | 481,913 |

During 2010 certain expenses were reclassified as contract services and the comparative amounts have been restated accordingly (refer note 25).

| | | 2010 R (12 months) | 2009 R (7 months) |
|---|---|---|---|
| **4.** | **EMPLOYEE BENEFIT EXPENDITURE** | | |
| | Salaries and wages | 76,137,452 | 39,869,187 |
| | Medical aid and other employment benefits | 5,056,963 | 2,619,898 |
| | Pension costs | 6,087,343 | 3,215,980 |
| | Training costs | 2,250,275 | 798,705 |
| | Non Executive board emoluments (note 19.4) | 548,642 | - |
| | Executive board and other key management emoluments (note 19.4) | 8,000,378 | 3,650,569 |
| | | 98,081,053 | 50,154,339 |
| | Post-employment healthcare benefits (note 14) | 1,096,672 | 464,004 |
| | Long service leave awards (note 14) | 1,074,387 | (1,729) |
| | | 100,252,112 | 50,616,614 |

During 2010 certain expenses were reclassified as training costs and the comparative amounts have been restated accordingly (refer note 25).

| | 2010<br>R<br>(12 months) | 2009<br>R<br>(7 months) |
|---|---|---|
| **5. OFFICE RENTALS AND OTHER OPERATING LEASE EXPENSES** | | |
| Rentals in respect of operating leases (minimum lease payments) | 11,726,860 | 5,961,260 |
| - Land and buildings | 10,865,659 | 5,728,483 |
| - Vehicles | 662,917 | 12,560 |
| - Equipment | 198,284 | 220,217 |
| **6. OTHER EXPENDITURE** | | |
| Included in other expenditure were the following: | | |
| Auditors' remuneration - current year | 2,049,234 | 134,662 |
| Bad debts | 503,880 | 100,186 |
| - Bad debts written-off | 22,651 | 6,266 |
| - Provision for impairment | 481,228 | 93,920 |
| Legal costs | 2,037,030 | 13,110 |
| Loss on property, plant and equipment due to theft | 106,083 | 108,996 |
| Loss on derecognition of property, plant and equipment | 250,282 | - |
| Realised net foreign exchange losses | - | 1,252 |
| **7. INTEREST RECEIVED** | | |
| Cash equivalents - financial assets at amortised cost | 911,943 | 403,743 |
| **8. FINANCE COST** | | |
| Other finance cost (included in note 22) | 1,579 | 570 |
| Finance lease charges | 539,907 | 163,721 |
| | 541,486 | 164,291 |

## 9. PROPERTY, PLANT AND EQUIPMENT

| 2010 | Furniture and office equipment R | Laboratory equipment R | Operating lease improve-ments R | Vehicles R | Total R |
|---|---|---|---|---|---|
| Opening carrying amount | 6,302,713 | 2,842,481 | 225,527 | 15,813 | 9,386,534 |
| Gross carrying amount | 6,883,872 | 3,132,977 | 262,121 | 18,192 | 10,297,161 |
| Accumulated depreciation | (581,159) | (290,495) | (36,594) | (2,379) | (910,627) |
| Additions | 1,902,674 | 378,614 | 58,789 | 185,267 | 2,525,344 |
| Depreciation | (1,985,160) | (691,649) | (66,017) | (41,149) | (2,783,975) |
| Derecognised at carrying amounts | (177,985) | (72,297) | - | - | (250,282) |
| Property, plant and equipment recognised at fair value (transitional provisions: Directive 2 of GRAP 17) | 120,107 | 242,932 | - | - | 363,039 |
| **Closing carrying amount** | **6,162,349** | **2,700,081** | **218,299** | **159,931** | **9,240,660** |
| Gross carrying amount | 8,631,389 | 3,662,583 | 320,909 | 203,459 | 12,818,340 |
| Accumulated depreciation | (2,469,040) | (962,501) | (102,611) | (43,528) | (3,577,680) |

## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

| 2009 | Furniture and office equipment R | Laboratory equipment R | Operating lease improve-ments R | Vehicles R | Total R |
|---|---|---|---|---|---|
| Opening carrying amount | - | - | - | - | - |
| Gross carrying amount | - | - | - | - | - |
| Accumulated depreciation | - | - | - | - | - |
| Additions | 6,992,868 | 3,132,977 | 262,121 | 18,192 | 10,406,157 |
| Depreciation | (581,159) | (290,495) | (36,594) | (2,379) | (910,627) |
| Derecognised at cost | (108,996) | - | - | - | (108,996) |
| **Closing carrying amount** | **6,302,713** | **2,842,481** | **225,527** | **15,813** | **9,386,534** |
| Gross carrying amount | 6,883,872 | 3,132,977 | 262,121 | 18,192 | 10,297,161 |
| Accumulated depreciation | (581,159) | (290,495) | (36,594) | (2,379) | (910,627) |

Property, plant and equipment with a gross carrying amount of R114,531 (2009: R1,281) were fully depreciated, but still in use on 31 March 2010.

The category of furniture and office equipment includes equipment leased from third parties under finance leases with the following carrying amounts:

## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Assets leased under finance leases<br>Furniture and office equipment<br>2010<br>R | <br><br>2009<br>R |
|---|---|---|
| Opening carrying amount | 3,828,361 | - |
| Additions | 667,446 | 4,208,362 |
| Depreciation | (1,591,439) | (380,001) |
| **Closing carrying amount** | **2,904,368** | **3,828,361** |

The carrying amount of assets under finance leases is pledged as security for its related liabilities.

Details of the finance lease obligations are disclosed in note 13.

## 10. INTANGIBLE ASSETS

### Computer software - purchased

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Opening carrying amount | 2,020,335 | - |
| Gross carrying amount | 2,318,465 | - |
| Accumulated amortisation | (298,130) | - |
| Additions - purchased | 51,727 | 2,318,465 |
| Amortisation | (790,064) | (298,130) |
| **Closing carrying amount** | **1,281,998** | **2,020,335** |
| Gross carrying amount | 2,370,191 | 2,318,465 |
| Accumulated amortisation | (1,088,194) | (298,130) |

## 11. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Trade receivables | 7,926,833 | 7,686,412 |
| Less: Adjustment to fair value at subsequent measurement | (168,484) | (131,957) |
| Trade receivables at amortised cost | 7,758,349 | 7,554,455 |
| Less: Impairment of trade receivables | (575,148) | (93,920) |
| | 7,183,201 | 7,460,535 |
| Other receivables | 119,903 | 107,567 |
| | **7,303,104** | **7,568,102** |

The impairment of trade receivables has been determined with reference to past default experience and the current economic environment. No interest is charged on overdue accounts.

Impairment of trade and other receivables from exchange transactions:

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Opening balance | 93,920 | - |
| Amounts received during the period | (56,586) | - |
| Amounts utilised - written off as bad debts | (11,200) | - |
| Increase in impairment provision | 549,014 | 93,920 |
| Closing balance | 575,148 | 93,920 |

The following is considered as objective evidence that trade receivables are impaired:

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

As at 31 March 2010, the age analysis of trade receivables is as follows:

| | Total<br>R | Not past due or impaired<br>R | Past due but not impaired > 30 days<br>R | > 60 days<br>R | >90 days<br>R | >120 days<br>R |
|---|---|---|---|---|---|---|
| **2010** | 7,926,833 | 4,160,530 | 1,159,242 | 658,120 | 58,957 | 1,889,983 |
| % | 100% | 52% | 15% | 8% | 1% | 24% |
| **2009** | 7,686,412 | 4,067,110 | 1,970,638 | 277,631 | 299,240 | 1,071,793 |
| % | 100% | 53% | 26% | 4% | 4% | 14% |

| | 2010<br>R | 2009<br>R |
|---|---|---|

## 12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and actual bank balances. Cash and cash equivalents comprise of the following:

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Bank balances | 30,606,971 | 17,130,438 |
| Cash on hand | 10,393 | 11,596 |
| Net cash and cash equivalents as per cash flow statement | **30,617,364** | **17,142,034** |

## 13. INTEREST BEARING BORROWINGS

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Finance lease liabilities - office equipment | 3,269,847 | 4,030,132 |
| Less: Current portion | (1,664,175) | (1,266,424) |
| Non-current portion | **1,605,673** | **2,763,709** |

The finance lease liabilities for office equipment bear interest at a rate between 11% and 15,5% (2009: 13,0% and 15,5%). The liabilities are repayable in total monthly instalments of R168,633 (2009: R146,782) each. Lease periods vary between 6 and 36 months.

Finance leases comprise:

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Total future minimum finance lease payments | 3,715,655 | 4,896,645 |
| - Payable not later than 1 year | 2,006,091 | 1,752,631 |
| - Payable between 1 year and not later than 5 years | 1,709,563 | 3,144,015 |
| Less: Unpaid future finance charges | (445,808) | (866,513) |
| Present value of future minimum finance lease payments | 3,269,847 | 4,030,132 |
| - Payable not later than 1 year | **1,664,175** | **1,266,424** |
| - Payable between 1 year and not later than 5 years | **1,605,673** | **2,763,709** |

The lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying amount of leased assets is R2,9 million (2009: R3,8 million) (Refer to note 9).

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

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

## 14. EMPLOYMENT BENEFIT OBLIGATIONS

| 2010 | Opening balance R | Provision made (12 months) R | Benefits paid / released (12 months) R | Closing balance R | Current portion R | Total non-current R |
|---|---|---|---|---|---|---|
| Post-employment healthcare benefit | 5,200,780 | 1,112,938 | (16,266) | 6,297,452 | (57,000) | 6,240,452 |
| Long service leave awards | 6,431,320 | 1,842,387 | (768,000) | 7,505,707 | (899,000) | 6,606,707 |
| | **11,632,100** | **2,955,325** | **(784,266)** | **13,803,159** | **(956,000)** | **12,847,159** |

| 2009 | Functions transferred R | Provision made (7 months) R | Benefits paid / released (7 months) R | Closing balance R | Current portion R | Total non-current R |
|---|---|---|---|---|---|---|
| Post-employment healthcare benefit | 4,736,776 | 472,115 | (8,111) | 5,200,780 | (13,000) | 5,187,780 |
| Long service leave awards | 6,433,049 | 452,271 | (454,000) | 6,431,320 | (768,000) | 5,663,320 |
| | **11,169,825** | **924,386** | **(462,111)** | **11,632,100** | **(781,000)** | **10,851,100** |

### Post-employment healthcare benefit obligation

This obligation arises because the NRCS provides post retirement medical assistance for current employees and pensioners of the NRCS (previously employed by SABS before 1 September 1998) who are members of Bestmed Medical Scheme and are entitled to receive a contribution subsidy from NRCS. These employees, who belonged to Bestmed for at least ten years and retire after the age of 60, are entitled to a post retirement subsidy.

Employees employed by the NRCS on or after 1 September 1998 or those who have not participated on Bestmed for at least ten years, or those who retire before age 60 years, are not entitled to a post retirement subsidy.

Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2010.

Key assumptions used (expressed as weighted averages):

| | | 2010 | 2009 |
|---|---|---|---|
| Discount rate per annum | BESA curve | **8,75%** | 8,5% |
| General inflation | Yield curve | **5,75%** | 5,5% |

## 14. EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The valuation took into account the yields on South African government bonds as reflected in the yield curve of the Bond Exchange of South Africa (BESA). The above assumptions are considered to be appropriate long-term assumptions and have been determined taking current economic considerations into account. The yield curve based on government bonds traded on BESA at end March 2010 were in the range of 7.03% per annum to 9.01% per annum (2009: 6.73% per annum to 8.88% per annum) with an average of 8.70% per annum (2009: 8.52% per annum) and a 20 year yield of 9.01% per annum (2009: 8.79% per annum). Yields on index linked government bonds are in the region of 3.0%. When compared to the yield on nominal government bonds this implies an inflation of approximately 5.7% (2009: 5.5%). This measure is a reasonable estimate of the market view of inflation, but is considered to slightly overstate inflation when high demand for index linked bonds depresses their yield.

The total outstanding liability amounted to R6,3 million (2009: R5,2 million) per the valuation performed during March 2010.

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Present value of funded obligations | 6,297,452 | 5,200,780 |
| Net liability per statement of financial position | 6,297,452 | 5,200,780 |
| The amount recognised in the statement of financial performance is determined as follows: | | |
| Current service cost | 203,106 | 136,000 |
| Interest cost | 462,832 | 336,115 |
| Actuarial (profit) / loss | 447,000 | - |
| Less: benefits paid | (16,266) | (8,111) |
| | 1,096,672 | 464,004 |

The fair value of plan assets amounted to Rnil.

### Sensitivity analysis

Below the effects on the central basis liability results for 2010 when the medical aid inflation rate is increased and decreased by 1%:

| Changes to medical inflation | Liability<br>R | Change in liability<br>% |
|---|---|---|
| +1% | 7,407,966 | 17.6% |
| Central | 6,297,452 | 0.0% |
| -1% | 5,394,239 | -14.3% |

## 14. EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

### Long service leave award obligation

The NRCS provides employees, previously employed by SABS before 1 March 2008, with three additional leave days after five years of service and another three days after ten years of services. 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.

Key assumptions used (expressed as weighted averages):

| | | 2010 | 2009 |
|---|---|---|---|
| Discount rate per annum | BESA curve | **8,75%** | 8,5% |
| Salary inflation | CPIX +1% | **6,75%** | 6,5% |

The BESA yield curve was used to discount the liability. The salary inflation rate has been set at 1% above the general inflation rate, which reflects general experience that overall salary inflation exceeds general inflation by a small margin.

The total outstanding liability amounted to R7,5 million (2009: R6,4 million) per the valuation performed during March 2010.

| | 2010<br>R | 2009<br>R |
|---|---|---|
| Present value of funded obligations | 7,505,707 | 6,431,320 |
| Net liability per statement of financial position | 7,505,707 | 6,431,320 |
| The amount recognised in the statement of financial performance is determined as follows: | | |
| Current service cost | 819,355 | 552,000 |
| Interest cost | 514,032 | 326,271 |
| Actuarial (profit) / loss | 509,000 | (426,000) |
| Less: benefits paid | (768,000) | (454,000) |
| | 1,074,387 | (1,729) |

There are no plan assets for this liability.

### Sensitivity analysis

Below the effects on the central basis liability results when the salary inflation rate is increased and decreased by 1%:

| Sensitivity to salary inflation | | Liability<br>R | Change in liability<br>% |
|---|---|---|---|
| | +1% | 8,026,049 | 6.9% |
| | Central | 7,505,707 | 0.0% |
| | -1% | 7,035,746 | -6.3% |

## 15. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| | 2010 R | 2009 R |
|---|---|---|
| Trade payables | 7,449,485 | 7,791,065 |
| Other payables | 209,018 | 257,289 |
| Salary related accruals | 4,713,545 | 5,044,584 |
| Accumulated leave accrual | 6,226,101 | 5,080,836 |
| Trade receivables with credit balances | 3,937,249 | 810,017 |
| Deferred operating lease accrual - current portion | 1,559,950 | 432,959 |
| | **24,095,348** | **19,416,749** |

The Board is of the opinion that the carrying amount of trade and other payables approximate their fair value.

Trade payables are normally settled within 30 days from invoice date or statement date.

## 16. NOTES TO THE CASH FLOW STATEMENT

| Reconciliation of net surplus to cash generated from operations | 2010 (12 months) R | 2009 (7 months) R |
|---|---|---|
| Operating surplus / (deficit) for the period before government grants and core funding | (29,642,140) | (16,799,244) |
| Adjustments for non-cash items : | 1,134,964 | (2,549,040) |
| Surplus on transfer of functions from SABS | (9,550,404) | (3,847,093) |
| Fair value of non-exchange revenue | 4,550,404 | - |
| Depreciation on property, plant and equipment | 2,783,975 | 910,627 |
| Amortisation of intangible assets | 790,064 | 298,130 |
| Bad debts written off | 22,651 | 6,266 |
| Settlement discount | (1,256) | (102) |
| Loss on property, plant and equipment due to theft | 106,083 | 108,996 |
| Loss on derecognition of property, plant and equipment | 144,199 | - |
| Profit on the capitalisation of full depreciated property, plant and equipment transferred from SABS | (50,231) | (582,058) |
| Property, plant and equipment recognised at fair value (transitional provisions: Directive 2) | (312,808) | - |
| Provision for employment benefit obligations | 2,955,325 | 924,386 |
| Employment benefits paid from provision | (784,266) | (462,111) |
| Increase in impairment of trade receivables | 481,228 | 93,920 |
| Operating surplus before working capital changes | (28,507,176) | (19,348,284) |
| Changes in working capital | 4,047,800 | 6,431,633 |
| Decrease / (Increase) in trade and other receivables | (216,230) | (7,242,085) |
| (Decrease) / Increase in trade and other payables | 4,678,599 | 13,259,149 |
| (Decrease) / Increase in income received in advance | (414,569) | 414,569 |
| Cash flows from operating activities before government grants and core funding | (24,459,377) | (12,916,651) |

## 17. COMMITMENTS

| | 2010<br>R | 2009<br>R |
|---|---|---|
| **Capital commitments** | | |
| Commitments for the acquisition of property, plant and equipment (contracted) | 4,554,310 | 538,228 |
| **Operating lease commitments - the company as lessee** | | |
| The future minimum payments payable under non-cancellable operating leases are as follows: | | |
| **Buildings** | 37,206,178 | 46,487,879 |
| - Payable within one year | 4,257,853 | 8,728,624 |
| - Payable between one and five years | 16,346,591 | 17,247,686 |
| - Payable after five years | 16,601,734 | 20,511,570 |

None of the lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. The company does not have the option to purchase any property. Escalation clauses vary from contract to contract averaging between 5% and 10%. The leases may be renewed not later than three calendar months prior to the expiry of the initial period of the lease.

The entity entered into an operating lease agreement with one of its related parties of which the transaction was not at arms length (refer note 19).

## 18. FINANCIAL RISK MANAGEMENT

### 18.1 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 financial years ended 31 March 2010 and 31 March 2009.

### 18.2 Interest rate risk management

The entity is exposed to interest rate risk as it places funds in the current account at floating interest rates. Interest rate risk is managed through effective cash management. The net interest income at 31 March 2010 was R370,456 (2009: R239,452).

## 18. FINANCIAL RISK MANAGEMENT (Continued)

### 18.2 Interest rate risk management (Continued)

The interest rate re-pricing profile at 31 March 2010 is summarised as follows:

| | Floating rate | |
|---|---|---|
| | 2010 | 2009 |
| Cash and cash equivalents | 30,617,364 | 17,142,034 |
| % of total bank balances | 100% | 100% |

If interest rates on 31 March 2010 had been 100 basis points (1%) lower (and all other variables remained constant), the surplus for the period would have been R306,070 (2009: R99,928) lower, mainly because of a decrease in the interest received on cash and cash equivalents carried at amortised cost. Other components of equity would have been R306,070 (2009: R99,928) lower.

If interest rates on 31 March 2010 had been 100 basis points (1%) higher (and all other variables remained constant), the surplus for the period would have been R305,823 (2009: R99,928) higher, mainly because of an increase in the interest received on cash and cash equivalents carried at amortised cost. Other components of equity would have been R305,823 (2009: R99,928) higher.

Finance cost consists mainly of fixed rate financial liabilities at amortised cost and is less sensitive to a change in interest rates.

### 18.3 Liquidity risk management

The company 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:

| 2010 | Within 1 month R | 1 - 3 months R | 3 - 12 months R | 1 - 5 years R | Total R |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade and other receivables | 3,334,180 | 3,158,765 | 678,112 | - | 7,171,058 |
| Cash and cash equivalents | 30,617,364 | - | - | - | 30,617,364 |
| Other financial assets | - | - | - | 322,000 | 322,000 |
| **Financial liabilities** | | | | | |
| Trade and other payables | 20,158,099 | 3,937,249 | - | - | 24,095,348 |
| Interest bearing borrowings | 138,681 | 277,362 | 1,248,131 | 1,605,673 | 3,269,847 |

## 18. FINANCIAL RISK MANAGEMENT (Continued)

### 18.3 Liquidity risk management (continued)

| 2009 | Within 1 month R | 1 - 3 months R | 3 - 12 months R | 1 - 5 years R | Total R |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade and other receivables | 4,067,110 | 2,248,269 | 1,371,032 | - | 7,686,412 |
| Cash and cash equivalents | 17,142,034 | - | - | - | 17,142,034 |
| Other financial assets | - | - | - | 312,000 | 312,000 |
| **Financial liabilities** | | | | | |
| Trade and other payables | 19,416,749 | - | - | - | 19,416,749 |
| Interest bearing borrowings | 146,782 | 293,564 | 826,078 | 2,763,708 | 4,030,132 |

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.

### 18.4 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.

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

At 31 March 2010, the NRCS did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for. The amount in the statement of financial position is the maximum exposure to credit risk.

### 18.5 Fair value of financial instruments

In the opinion of the Board the book value of the financial instruments approximates their fair value.

The following methods and assumptions were used by the NRCS in establishing fair values:

#### Financial instruments not traded in an active market

At 31 March 2010 and 31 March 2009 the carrying amounts of cash and deposits, accounts receivable, accounts payable and short-term borrowings approximated their fair values due to the short term maturities of these assets and liabilities.

#### Interest bearing debt

The carrying amounts of interest bearing debt approximate their fair values.

## 19. RELATED PARTY TRANSACTIONS

### 19.1 Transfer of functions from related party

On 1 September 2008 the NRCS and the SABS became separate entities. The settlement agreement as captured in the Memorandum of Understanding was finalised in April 2010. The impact of the agreement in the current financial year is free rental of the premesis, parking bay's at no cost and the receipt of R 5 million cash.

Future impact of the settlement is the rental of the property at no cost for a further year ending on 31 March 2011 and thereafter at 50% of the rental cost for a further 3 years ending on 31 March 2014. The parking bays will be charged at a nominal rate up to 31 March 2014. An cash amount of R5 million will be paid to the NRCS in the coming financial year.

The parties also agreed that a SABS property, Erf 2901 Mount Road, situated in the municipality of Port Elizabeth in extent of 1,6486 hectares square metres per title deed T48253/92, will be transferred to the NRCS. This is disclosed as a contingent asset in note 21.

The details of the settlement transaction impact on the Financial Statements is detailed below:

| | 2010<br>R | 2009<br>R |
|---|---|---|
| **Assets transferred at fair value** | **5,000,000** | **21,174,518** |
| Cash and cash equivalents | 5,000,000 | 16,001,077 |
| Property, Plant and equipment | - | 4,772,424 |
| Deposits | - | 75,000 |
| Trade and other receivables | - | 58,269 |
| Prepayments - insurance | - | 267,748 |
| **Liabilities transferred at fair value** | **-** | **(17,327,425)** |
| Post employment healthcare benefit | - | (4,736,776) |
| Long service leave awards | - | (6,433,049) |
| Accumulated leave accrual | - | (5,114,335) |
| Salary related accruals | - | (1,043,265) |
| **Fair value of non-exchange revenue** | **4,550,404** | **-** |
| **Net assets transferred** | 9,550,404 | 3,847,093 |

## 19. RELATED PARTY TRANSACTIONS (Continued)

### 19.2 Purchases from related parties

| | Purchases R | Impairment of debt R | Bad debt written off R | Balance outstanding R |
|---|---|---|---|---|
| **2010** | | | | |
| **National government business enterprises** | | | | |
| SA Bureau of Standards | 8,721,345 | - | - | 3,657,087 |
| **2009** | | | | |
| **National government business enterprises** | | | | |
| SA Bureau of Standards (SABS) | 14,588,364 | - | - | 3,188,562 |

### 19.3 Sales to related parties

| | Sales R | Impairment of debt R | Bad debt written off R | Balance outstanding R |
|---|---|---|---|---|
| **2010** | | | | |
| **National government business enterprises** | | | | |
| SA Bureau of Standards (SABS) | 69,822 | - | - | 50,055 |
| **2009** | | | | |
| **National government business enterprises** | | | | |
| SA Bureau of Standards (SABS) | - | - | - | - |

Levies and other receipts to the value of R2.5 million (2009: R10.8 million) were collected and paid by SABS to the NRCS.

## 19. RELATED PARTY TRANSACTIONS (continued)

### 19.4 Key management personnel compensation

The following emoluments were paid to the Board Members:

| 2010 (12 Months) | Notes | Remuneration as Board member R | Bonus / performance payments R | Retirement and medical aid R | Other services (Travel claim) R | Total R |
|---|---|---|---|---|---|---|
| **Non-Executive: Board Members** | | | | | | |
| Adv. DJ Block | 1 | 40,455 | - | - | 6,190 | 46,645 |
| S Maziya (Chairperson) | 1 | 36,142 | - | - | 2,161 | 38,303 |
| FA Melato | 1 | 38,206 | - | - | 3,008 | 41,214 |
| SE Moolman | 1 | 51,691 | - | - | 899 | 52,590 |
| DN Ndaba | 1 | 55,060 | - | - | 6,178 | 61,238 |
| Prof. S Perumal | 1 | 60,678 | - | - | 6,373 | 67,051 |
| NMW Vermeulen | 1 | 53,767 | - | - | 5,168 | 58,935 |
| S Zikode | 1 | - | - | - | - | - |
| | | 335,999 | - | - | 29,977 | 365,976 |
| **Non-Executive: Audit Committee Members** | | | | | | |
| V Magan | 2 | 101,764 | - | - | 2,097 | 103,861 |
| RG Nicholis | 2 | 70,256 | - | - | - | 70,256 |
| T Pooe | 3 | - | - | - | - | - |
| JS Stanbury | 3 | 8,263 | - | - | 286 | 8,549 |
| | | 180,283 | - | - | 2,383 | 182,666 |
| **Total non-executive remuneration** | | **516,282** | **-** | **-** | **32,360** | **548,642** |

1. Appointed on 24 March 2009.
2. Appointed on 20 August 2009.
3. Resigned on 24 July 2009.

Comparative amounts have not been provided due to an Interim management committee fulfilling the duties of the Board who was appointed on 24 March 2010.

## 19. RELATED PARTY TRANSACTIONS (continued)

### 19.4 Key management personnel compensation (Continued)

The following emoluments were paid to the Chief Executive Officer and his direct reportees:

| 2010 (12 Months) | Notes | Basic salary R | Bonus / performance payments R | Retirement and medical aid R | Other allowances R | Total R |
|---|---|---|---|---|---|---|
| **Executive: Board Member** | | | | | | |
| M Moeletsi - CEO | | 679,564 | 103,046 | 145,761 | 370,388 | 1,298,759 |
| **Executive: Management** | | | | | | |
| WM vd Merwe - CFO | | 798,110 | 60,000 | - | 60,250 | 918,360 |
| B Khanyile | | 570,196 | 81,501 | 91,141 | 71,651 | 814,489 |
| SH Carstens | | 565,276 | 71,502 | 115,560 | 38,972 | 791,310 |
| A Hirachund | | 603,791 | 51,502 | 81,022 | 6,000 | 742,315 |
| MT Madzivhe | | 533,401 | 51,502 | 84,458 | 78,000 | 747,361 |
| P Mazibuko | | 526,988 | 53,239 | 69,197 | 118,329 | 767,753 |
| MJ Young | | 532,090 | 52,390 | 104,533 | 23,450 | 712,463 |
| F le R Fourie | | 531,118 | 55,315 | 122,176 | 77,500 | 786,109 |
| A Ngwenya | 1 | 298,547 | - | 41,453 | 81,459 | 421,459 |
| **Total executive remuneration** | | **5,639,081** | **579,997** | **855,301** | **925,999** | **8,000,378** |

1. Appointed 1 July 2009, resigned 31 December 2009

| | |
|---|---|
| Total key management personnel expenditure | 8 549 020 |

## 19. RELATED PARTY TRANSACTIONS (continued)

### 19.4 Key management personnel compensation (Continued)

| 2009 (7 Months) | Notes | Basic salary R | Bonus / performance payments R | Retirement and medical aid R | Other allowances R | Total R |
|---|---|---|---|---|---|---|
| **Executive: Board Member** | | | | | | |
| M Moeletsi - CEO and Board Member | | 327,300 | - | 67,999 | 147,358 | 542,657 |
| **Executive: Management** | | | | | | |
| WM vd Merwe - acting CFO | 1 | 200,000 | - | - | 22,000 | 222,000 |
| B Khanyile | | 293,625 | - | 47,683 | 53,488 | 394,796 |
| SH Carstens | | 282,417 | - | 60,094 | 38,943 | 381,454 |
| A Hirachund | | 297,589 | - | 43,113 | 47,683 | 388,385 |
| MT Madzivhe | | 277,289 | - | 46,213 | 68,857 | 392,359 |
| P Mazibuko | | 280,520 | - | 37,824 | 67,333 | 385,677 |
| MJ Young | | 285,519 | - | 56,351 | 63,712 | 405,582 |
| F le R Fourie | | 326,133 | - | 70,694 | 2,500 | 399,327 |
| M Combrinck - acting CFO | 2 | 119,556 | - | 7,500 | 11,276 | 138,332 |
| | | **2,689,948** | **-** | **437,471** | **523,150** | **3,650,569** |

1. Appointed 1 December 2008
2. Service term: 1 September 2008 to 19 December 2008

| | 2010 R (12 months) | 2009 R (7 months) |
|---|---|---|
| **19.5 Government grants and core funding** | | |
| Received from Department of Trade and Industry | 35,933,000 | 17,495,246 |

## 20. CONTINGENT LIABILITIES

The SABS provided guarantees to AVIS for employees that were transferred to the NRCS on 1 September 2008. At 31 March 2010 13 employees (2009: 21) are active in the above scheme with an outstanding amount of R1,155,322 (2009: R1,742,905). The NRCS did not adopt the scheme.

Section 53(3) of the PFMA states that a public entity may not accumalate surpluses unless prior written approval of the National Treasury has been obtained. A letter was send to National Treasury requesting approval for accumulated surpluses to be rolled over to the following year. To date National Treasury has not given its approval for the accumulated surplus for 2009 or 2010.

NRCS is being sued for defamation and loss of profit for an amount of R100 000 following a media release by NRCS advising customers that the plaintiff's products does not comply with the compulsory specification. The NRCS is confident that the plaintiffs case is unlikely to succeed.

## 21. CONTINGENT ASSET

Erf 2901 Mount Road situated, in the municipality of Port Elizabeth in extent of 1,6486 hectares square metres per title deed T48253/92, will be transferred to the NRCS as per agreement reached with the SABS (Note 19.1). The value of the property is R6,5 million as per the valuation done by Goosen & De Villiers Valuers on 18 February 2010.

| | 2010<br>R<br>(12 months) | 2009<br>R<br>(7 months) |
|---|---|---|
| **22. FRUITLESS AND WASTEFUL EXPENDITURE** | | |
| **22.1 Fruitless and wasteful expenditure for the period** | 2,479 | 1,934 |
| Consists of bank charges and interest on late payments. | | |
| **22.2 LOSSES THROUGH CRIMINAL CONDUCT** | | |
| Computer equipment stolen derecognised at cost. | 106,083 | 108,996 |

Computers not insured were stolen. The risk was addressed by including individual computers in the insurance contract from December 2009.

## 23. IRREGULAR EXPENDITURE

Treasury Regulation 16A6.1 states that the procurement of goods and services should be through 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. Certain expenses were found which did not comply with the above procedures to the value of R5 550 683 (2009: R580,153). Application was lodged to National Treasury to condone those expenses related to the previous financial year which will reduce the above amount. The outcome is uncertain at the date of the report.

## 23. IRREGULAR EXPENDITURE (Continued)

These payments were investigated and found that no one could be held liable for the lack of procedure as the policy adopted from SABS, a 3B Entity, did not comply with Treasury Regulations applicable to a 3A Entity. All policies, including the Supply Chain Management policy, were adopted from the SABS and changes affected over a period of time.

The Supply Chain Management policy that addresses the shortcomings was approved by the Board on 9 February 2010.

## 24. BUDGET COMPARED TO THE STATEMENT OF FINANCIAL PERFORMANCE

| | Notes | 2010 R Actual | 2010 R Budget | 2010 Variance % |
|---|---|---|---|---|
| **Revenue** | | **111,283,726** | **113,018,304** | -2% |
| Levies for compulsory specifications | 24.1 | **74,863,472** | **84,816,676** | -12% |
| Services rendered | 24.1 | **36,420,254** | **28,201,628** | 29% |
| **Other income** | 24.3 | **9,922,530** | **14,500,000** | -32% |
| | | 121,206,256 | 127,518,304 | -5% |
| **Expenditure** | | **(150,848,396)** | **(148,684,293)** | 1% |
| Advertising and marketing expenditure | | (1,600,509) | (1,500,500) | 7% |
| Amortisation of intangible assets | 24.5 | (790,064) | - | |
| Contract services | 24.4 | (9,208,839) | (6,588,740) | 40% |
| Depreciation | 24.5 | (2,783,975) | (995,459) | 180% |
| Employee benefit expenditure | 24.8 | (100,252,112) | (101,591,974) | -1% |
| Office rentals and other operating lease expenses | 24.5 | (11,726,860) | (13,943,932) | -16% |
| Tests and sampling | | (5,657,833) | (6,347,064) | -11% |
| Travel expenditure | 24.8 | (7,272,940) | (9,314,472) | -22% |
| Other expenditure | 24.6 | (11,555,264) | (8,402,152) | 38% |
| **Operating (deficit) before government grants and core funding** | | **(29,642,140)** | **(21,165,989)** | |
| Government grants and core funding | 24.2 | 35,933,000 | 21,533,000 | 67% |
| **Operating surplus for the period** | | **6,290,860** | **367,011** | |
| Interest received | 24.7 | 911,943 | - | |
| Finance cost | 24.5 | (541,486) | - | |
| **Surplus for the period** | | **6,661,317** | **367,011** | |

Comparative amounts have not been provided due to the first time compliance with GRAP 1.10 - 1.15.

## 24. BUDGET COMPARED TO THE STATEMENT OF FINANCIAL PERFORMANCE (Continued)

### Budget exceeding actual amounts - material variances disclosed

24.1 Levies for compulsory specifications were significantly less than the budget due to the worse than expected impact of the worldwide resession. The impact was reduced by levy audits done to the value of R6.7 million. Services rendered exceeded budget due to income classified under services but budgeted under levies.

24.2 The government provided additional funding for the budgeted deficit of R14.4 million.

24.3 Other income not budgeted for consisted of R 9,2 million received from the SABS as part of the final settlement agreement. The amount in the budget line indicated the shortage in the budget that was received from the **dti** in December 2009.

24.4 Contract services included commission paid to the levy auditor on the R6.7 million additional income from levy audits conducted mentioned in 24.1 above.

24.5 Depreciation and finance cost exceeded budget due to the depreciation on finance leased assets that was budgeted under rental of equipment, where there was a saving of 14 %.

24.6 The reason for other expenses exceeding budget is mainly the legal costs for cases taken on by the SABS and settled in the current financial year.

24.7 Due to the uncertain financial position interest revenue was not budgeted for.

24.8 Staff and travel cost came in under budget due to management’s decision to reduce travel and not to fill vacancies in some of the business units.

## 25. RESTATEMENT OF COMPARATIVE AMOUNTS DUE TO RE-CLASSIFICATION

During 2010 certain income and expenses were re-classified and the comparative amounts have been restated accordingly. The effect on the statement of financial performance is as follows:

| | 2009 (7 months) R |
|---|---|
| Decrease in revenue | (17,495,246) |
| Increase in contract services (IT Services) | 2,588,909 |
| Increase in employee benefit expenditure (training costs) | 798,705 |
| (Decrease) in other expenses | (3,387,614) |
| Government grants and core funding (line item moved below operating deficit before government grants and core funding) | 17,495,246 |
| Net effect on the surplus for the period | - |
| Effect on net assets | - |

## 26. SOCCER WORLD CUP 2010

No expenses were incurred with regard to the Soccer World cup held in South Africa.

## 27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the NRCS Executive Authority and authorised for issue on 28 July 2010.

# List of Acronyms

| | |
|---|---|
| Afrimets | Intra African Metrology System |
| CIPRO | Companies and Intellectual Property Registration Office |
| COTII | Council of Trade and Industry Institutions |
| **dti** | Department of Trade and Industry |
| EU | European Union |
| ITAC | International Trade Administration Commission of South Africa |
| KPA | Key performance area |
| KPI | Key performance indicator |
| LOA | Letter of authority |
| NEDLAC | National Economic Development and Labour Council |
| NRCS | National Regulator for Compulsory Specifications |
| OECD | Organisation for Economic Cooperation and Development |
| OIML | International Organisation of Legal Metrology |
| PFMA | Public Finance Management Act |
| QMS | Quality Management System |
| RRD | Regulatory Research and Development |
| SABS | South African Bureau of Standards |
| SADC | South African Development Community |
| SANAS | South African National Accreditation System |
| SARS | South African Revenue Services |
| SLA | Service level agreement |
| SQAM | Standards, Quality, Accreditation and Metrology |
| SADCMEL SADC | Legal Metrology Cooperation |
| TR | Technical regulation |
| WTO TBT | World Trade Organisation Agreement on Technical Barriers to Trade |

## Notes

## Notes

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