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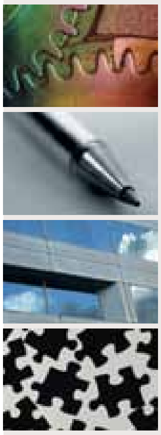

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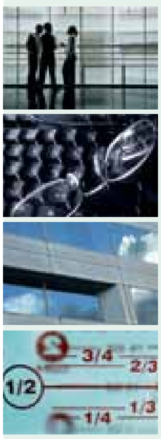
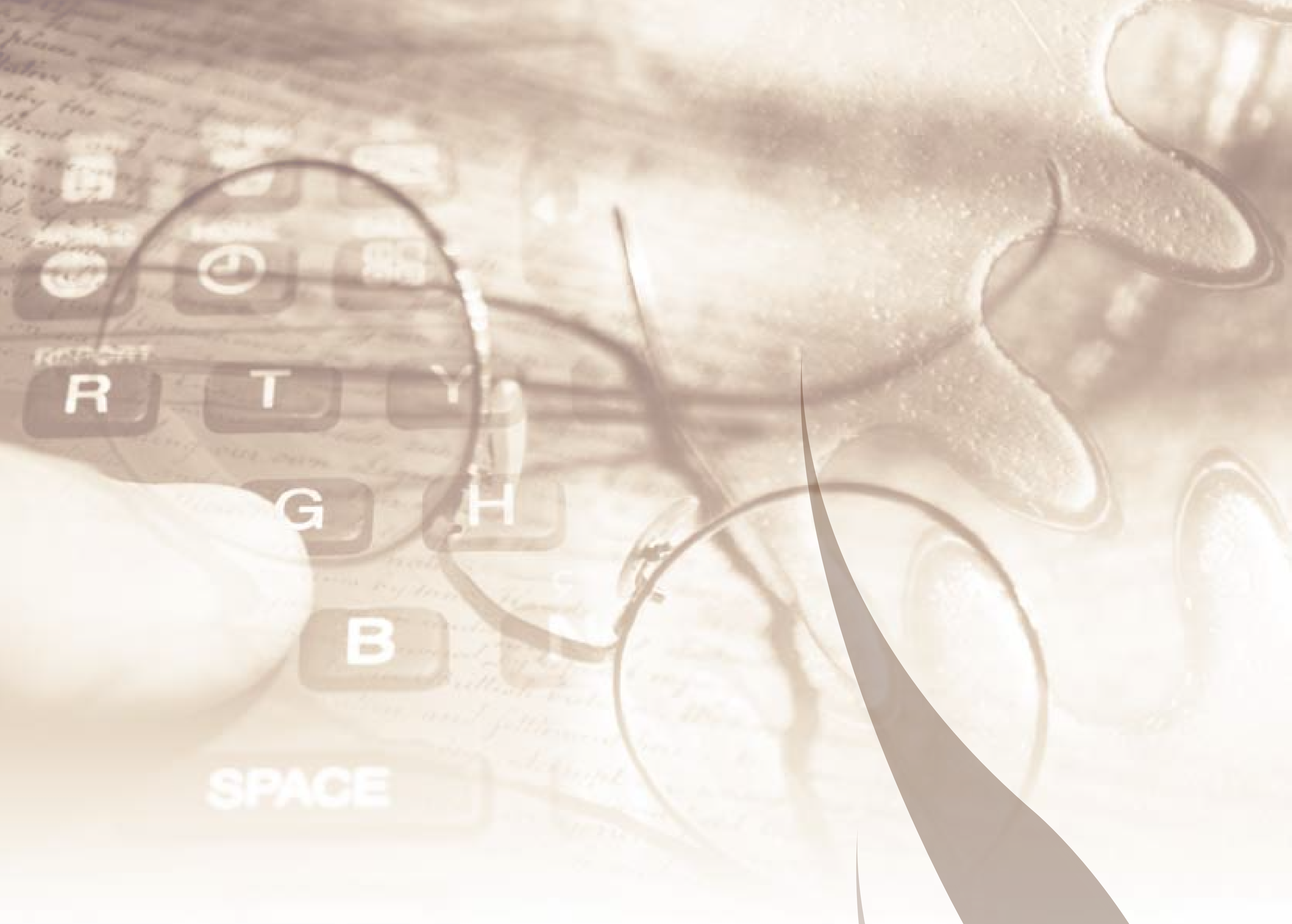




Overview

OVERVIEW

BACKGROUND TO THE NRCS

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 in terms of the National Regulator for Compulsory Specifications Act (NRCS Act), Act 5 of 2008. It emerged as an independent organisation from the original Regulatory Division of the South African Bureau of Standards and is defined as a Section 3a organisation under the Public Finance Management Act.

The NRCS is primarily responsible for the administration of three Acts that reside under its jurisdiction, namely the NRCS Act 5 of 2008, the Trade Metrology Act 77 of 1973 and the National Building Regulations and Building Standards Act 103 of 1977. The NRCS also administers regulations that fall under the jurisdiction of other government departments, in terms of agreements reached with the respective departments.

The NRCS recently changed its organisational structure and is structured into Divisions and Functional Units arranged around specific areas of accountability.

Divisions are the:

- Regulatory Research and Development
- Perishable Products Division
- Non-perishable Products Division
- Legal Metrology Division
- Corporate Services Division

NRCS Mission

The mission of the NRCS is to protect the interests of South Africans by developing and ensuring compliance with a system of compulsory specifications and technical regulations.

NRCS Vision

The vision of the NRCS is a safe, competitive and prosperous South Africa in which we collaborate with our partners to promote environmental sustainability and contribute to a world-class technical infrastructure.

Legislative Frameworks

The legislative frameworks under which the NRCS performs its tasks on behalf of **the dti** are as follows:

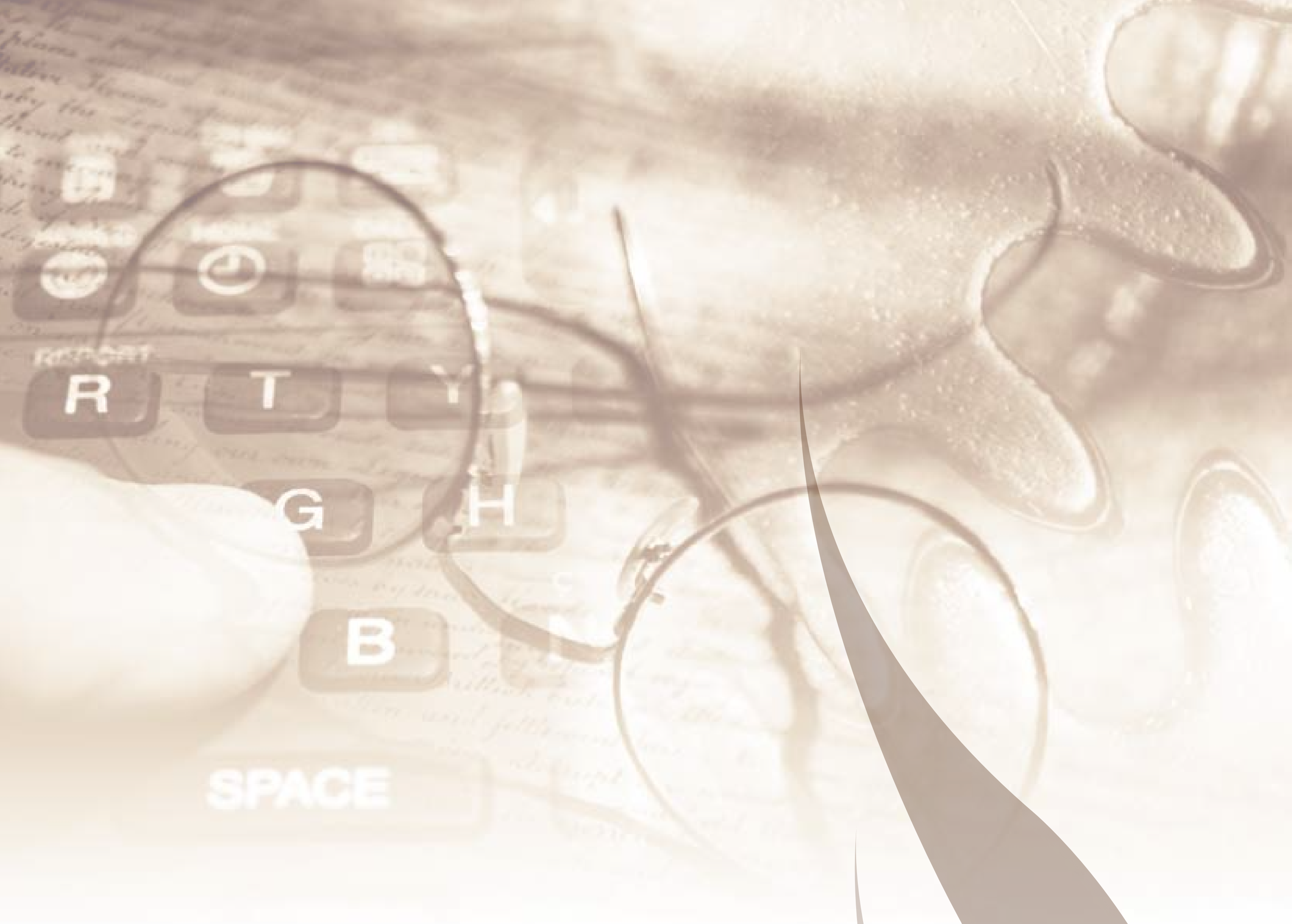
- The National Regulator for Compulsory Specifications Act (Act No. 5 of 2008)
- Trade Metrology Act (Act No. 77 of 1973)
- National Building Regulations and Building Standards Act (Act No. 103 of 1977)

The Strategic Objectives are to:

- Promote co-coordinated and accelerated implementation of government's economic vision and priorities
- Promote direct investment and growth in the industrial and services economy, with particular focus on employment creation
- Raise the levels of exports and promote equitable global trade
- Promote broader participation, equity and redress in the economy
- Contribute to Africa's development and regional integration within the New Partnership for Africa's Development (NEPAD)

Strategic outcome-orientated goals

1. To maximize compliance with all specifications and technical regulations falling under the mandate of the NRCS
2. To extend the scope of NRCS regulatory activity to increase the protection of South African citizens
3. To inform and educate stakeholders, industry and consumers regarding obligations of the NRCS with respect to specifications and technical regulations
4. To implement a risk-based approach to regulation that informs all regulatory activity
5. To ensure that the 'right people are in the right place at the right time' to enable effective execution of the NRCS's strategy.



Report of the Acting Chairperson

REPORT OF THE ACTING CHAIRPERSON

In line with the policies and action planning framework of the Department of Trade and Industry (**the dti**), such as the Industrial Policy Action Plan (IPAP) and the South African Trade Policy and Strategy Framework, the NRCS Board and Management have developed a one-year (2012-2013) and five-year (2012-2017) strategic plan. These plans give direction to the NRCS on how it should reorganise itself to meet the objectives of government and the NRCS's mandate.

The strategic plan of the NRCS will ensure that delivery meets government's goals and objectives and the mandate of the organisation.

The implementation of the strategic plan will directly affect:

- the quality of life of all South Africa's citizens through ensuring protection of their health and safety, protection of the environment and the application of fair trade
- industry through the strengthening of existing markets and opening up of new markets (exports)
- the locking out of non-compliant imports
- the creation of jobs, which will go a long way towards the eradication of poverty

The five strategic goals are to:

- adopt a risk-based approach to maximize compliance with all specifications and technical regulations falling under the mandate of the NRCS
- optimise the scope of the NRCS's regulatory activity to protect people and the environment in South Africa
- inform and educate industry and consumers regarding their rights and obligations with respect to specifications and technical regulations
- ensure that highly engaged, competent people are in the right place at the right time to enable effective execution of the NRCS strategy
- ensure that the NRCS is a capacitated organisation with "fit for purpose" resources available to support decision making and action.

In an ever-changing global market, regulations are necessary to ensure that South African industry remains relevant in the global economy and that our consumers are protected.

Every year, the NRCS identifies the need for new or amended technical regulations and compulsory specifications to improve delivery of its mandate in terms of the NRCS Act. In the year under review various new and amended compulsory specifications and technical regulations were approved by the Board to better protect South African citizens and promote fair trade.

The NRCS's mandate involves the undertaking of surveillance inspections, approvals and, where necessary, the implementation of sanctions. In our endeavour to be more efficient and effective, NRCS units:

- inspect goods where possible at source
- conclude where necessary Memorandums of Understanding (MoUs) and technical agreements with other bodies
- conduct awareness interventions where necessary, and
- institute sanctions where non-compliance is found.

It is also the intention to position the NRCS and South Africa as a leader in the regulatory domain, by becoming a preferred regulatory agency in South Africa, in the region (SADC), the continent (Africa) and internationally.

The NRCS would like to be regarded as an organisation that adds value in all forums in which we are involved. This will be achieved through involvement in regional, continental and international forums.

The NRCS is currently active on the following forums

- Regionally
    - SADCMEL – Legal Metrology Cooperation forum
    - SADCTBTSC – Technical Barriers to Trade Stakeholder Committee
    - SADC - Automotive forum

- Continental
  - Afrimets – Pan-African metrology body
- International
  - OIML – International Organisation of Legal Metrology
  - Codex Alimentarius – Food safety organisation
  - UNECE WP 29 – Automotive forum

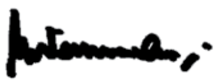
The NRCS is involved in the following ways:

- Attendance of annual meetings
- Involvement in technical committee work through
  - Providing input into the development of international technical regulations
  - Hosting technical committees
- Undertaking office-bearers' functions

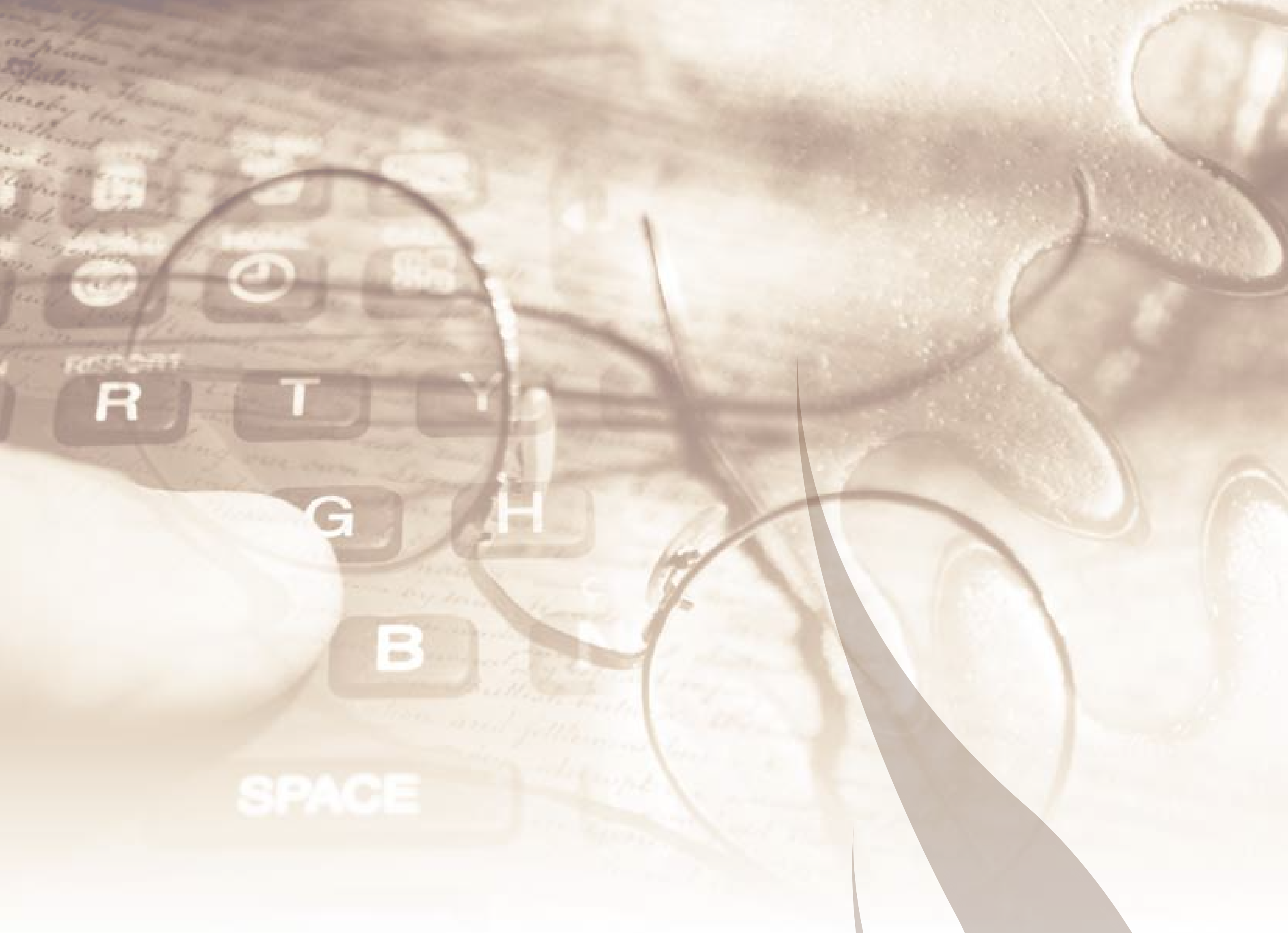
Involvement in the above mentioned forums is based on the needs of South Africa, **the dti**, industry and consumers.

The harmonisation of compulsory specifications and technical regulations will go a long way in locking out non-compliant goods (imports) and locking South African industry into new markets as well as strengthening the existing markets (exports). This will lead to growth in the South African economy, which should lead to job creation, which will go a long way in government's endeavour to alleviate poverty.
The NRCS is recognised as a leader in the above forums. To maintain this status we are currently developing a Competency Development Programme that will provide the building blocks on which key Human Resource Management processes can be based. The transfer of knowledge is also a priority and is being addressed.

As an agency of **the dti**, the NRCS is positioning itself to be a preferred service provider which is nationally and internationally recognised for its support to **the dti** in achieving its mandate.



Mr Nico Vermeulen
Acting Chairperson of the NRCS Board



Report of the Acting Chief Executive Officer

REPORT OF THE ACTING CHIEF EXECUTIVE OFFICER

The year 2011/12 was characterised by many challenges, ranging from disruptions emanating from labour disputes and financial challenges which adversely affected the overall performance of the organisation. Notwithstanding all these challenges, we are determined as an organisation to live up to our vision of a safe, competitive and prosperous South Africa in which we collaborate with our partners to promote environmental sustainability and contribute to a world-class technical infrastructure.

The external strategic environment within which South African trade and the NRCS operates has also been characterised by rapid and fundamental change. Rapid globalisation experienced over the past decade created an open, fluid market with a rapid movement of an increasing variety of goods, of various sources of origin and of increasing technological complexity.

The global manufacturing base has also shifted to the East from the West, dramatically changing traditional sources of products. This has contributed to the increased scale of the regulatory challenges facing the NRCS.

It is also our view that regional and international harmonisation of regulatory practices should be strengthened to share best practice regulatory policies. The harmonisation of practices is of particular value where a specific regulatory issue has significant cross-border effects and cannot be tackled by a national regulator alone.

In response to these intricacies, we have had to reconfigure the way we conduct our business by, inter alia, moving towards deploying more of our people at the ports of entry so that we can intercept unacceptable products at the borders before they enter our local markets, and striking partnerships with organisations such the South African Revenue Services and South African Police Service. However, in doing so, we need to guard against increasing the costs of doing business within our shores.

We have also refined our business model by adopting the risk-based approach strategy which will give effect to the "lock-in, lock-out principle" as part of the Industrial Policy Action Plan (IPAP 2). Further to this, the NRCS undertook a pilot project at Durban Harbour in the last quarter of 2011 for the purpose of developing a border enforcement strategy. A total of 47 containers (9,9% of those inspected) and 29 vehicles (22%) were found to be non-compliant. The extrapolated value of the goods inspected at the container depots was about R130 million.

The organisation's Perishable Products Division inspected 100% of all declared fishery and associated products for compliance. A total of 20 directives were issued in respect of imports, five in respect of exports and 12 in respect of locally produced non-compliant goods. A wide variety of unsafe fishery products were prevented from entering the market, or withdrawn from the market and destroyed. If not intercepted they could lead to the loss of lives or pose serious health hazards.

In respect of non-perishable products, 745 directives were served for non-compliant products within the Chemicals, Mechanicals and Materials (CMM), Electro-technical and Automotive Industries. Major operational challenges included long turnaround times offered by many of the testing facilities which prevented timely action against non-compliance.

Non-compliant products that were surrendered voluntarily by clients or were found on the market were destroyed at several product destruction facilities across the country. These include paraffin stoves, electric heaters, lawnmowers, fans, electric kettles, audio-visual equipment, plastic carrier bags, dust masks, respirators, disinfectants, plugs, socket outlet adaptors, motorcycle helmets and toasters, with a value of over R5 million.

The organisation, through performance of its functions in terms of fair trade, saved the consumers through removal of non-compliant pre-packed goods from the market and correction of non-compliances, an estimated value of R 56,6 million.

The Legal Metrology Division received 199 new applications for type approval from manufacturers and suppliers of measuring instruments such as scales used in butcheries, and issued 103 certificates of approval. Despite an inspection restraint due to insufficient funding, 5 621 market surveillance inspections were conducted, 3,3% more than the target for the year. The significant downward trend in non-compliance of goods on the market is attributed to continued inspections in the area of pre-packaged goods. If it had been possible for the Legal Metrology Division to cover 100% of the market, the extrapolated cost saving to consumers could have exceeded R 283 million.

The National Building Regulations section engaged extensively with the Construction Industry and developed course material which has been taken up as a semester course by the University of the Free State. This intervention is strategic in nature because it contributes to the human-capital pipeline of the country in the area that has been neglected for a long time.

Communications played an integral role in realising the organisation's mandate with various communication related activities implemented during the 2011/2012 year. With more resources, this portfolio will play a pivotal role in setting the strategic agenda of the NRCS and in particular around the public awareness programmes.

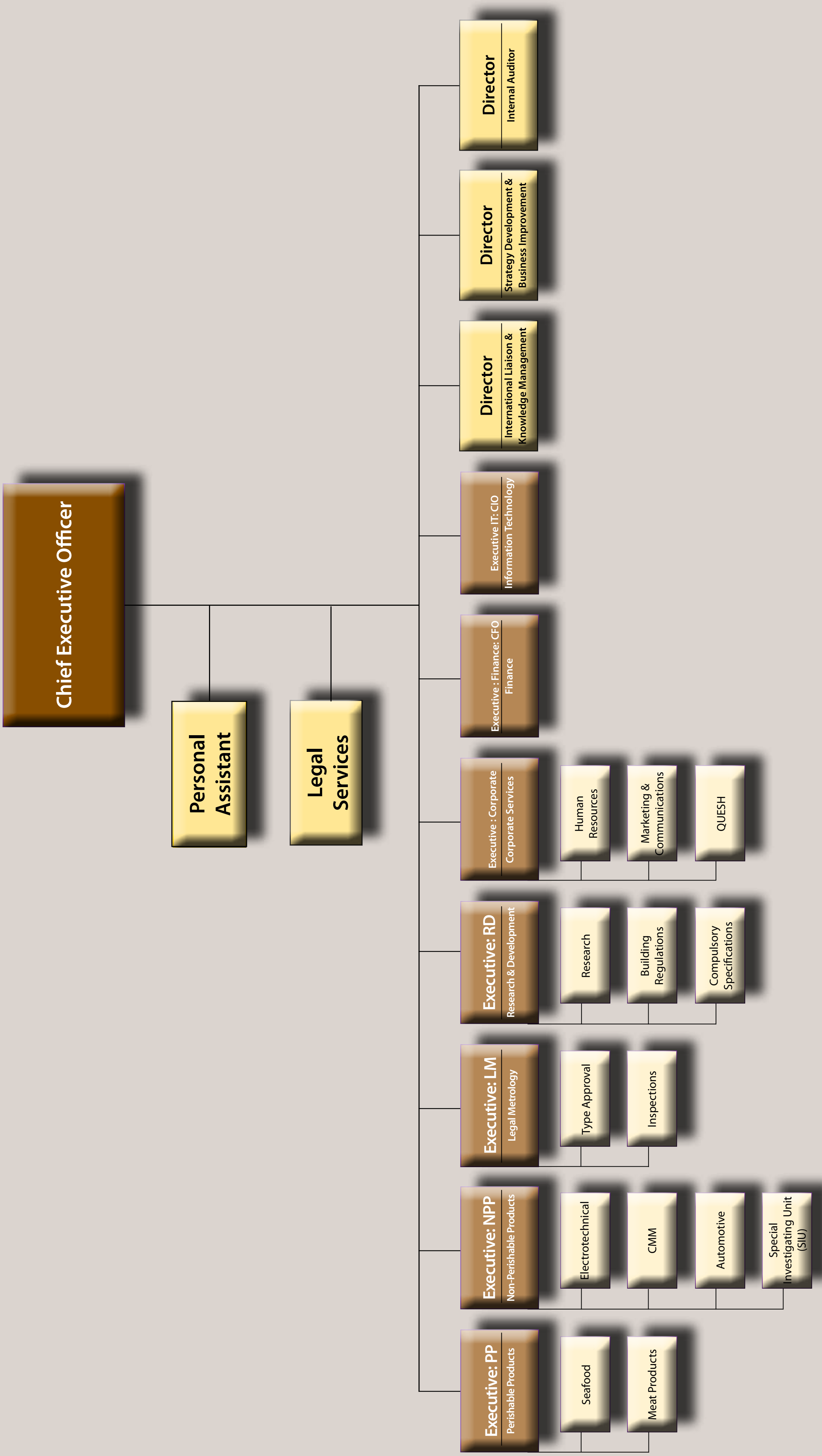
The NRCS Board and Management attach great value to the organisation's principal asset – the staff through which the organisation renders its service to the nation – and are working with all stakeholders internally and externally and seeking staff views in the process of creating a conducive working environment. The training and development function is also receiving attention to reduce capacity restraints and to further strengthen our professional judgment.

Bilateral and international agreements and Memorandums of Understanding (MoUs) were established and or reinforced with key stakeholders to prevent non-compliant goods from entering both the domestic and export markets. Thus was demonstrated and enhanced South Africa's international responsibility in the field of product regulation, with beneficial spin-off effects for the country's status as a reputable trading partner and reliable source of goods, which in turn would have a multiplier effect on employment creation and concomitant expansion of the consumer body and tax base.

The NRCS is rightly proud of the role it plays in preserving the safety of South African consumers against potentially hazardous non-compliant goods and ensuring that they receive fair value for their outlay, and is determined to continue and further enhance its services in ensuring compliance at all levels. We will continue to identify gaps in regulation where necessary to ensure consumer protection in an ever-changing global market.

Mr Katima Temba
Acting Chief Executive Officer

NRCS EXECUTIVE STRUCTURE



BOARD MEMBERS' PROFILES

Nico Vermeulen
Current boards:

National Regulator for Compulsory Specifications

Management of the South African Chamber of Commerce and Industry

Council of Business Unity South Africa

Board of the Unemployment Insurance Fund

Dora Ndaba
Current boards:

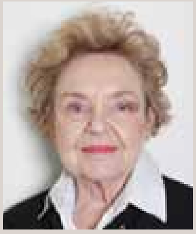
National Regulator for Compulsory Specifications

Sadhasivan Perumal
Current boards:

National Regulator for Compulsory Specifications

Derick Block
Current boards:

National Regulator for Compulsory Specifications



SE (Lillibeth) Moolman
Current boards:

National Regulator for Compulsory Specifications

Food Advisory Consumer Service

Moses Moeletsi
Current boards:

National Regulator for Compulsory Specifications

Funzani Melato
Current boards:

National Regulator for Compulsory Specifications

Sunland Farms

Sipho Zikode
Current boards:

National Regulator for Compulsory Specifications

Katima Temba
Current boards:

National Regulator for Compulsory Specifications

Legal Metrology Division

LEGAL METROLOGY DIVISION

INTRODUCTION

To give effect to the vision of the NRCS to ensure fair trade, the Legal Metrology Division is mandated to ensure that consumers receive the amount or quantity of goods declared by an importer, manufacturer or retailer on a prepackage, or where a measuring instrument is used to conclude a transaction, that it remains accurate within prescribed limits of error. In short, consumers should receive what they pay for (value for money), and certainly no less.

The Division achieves its mandate by:

- ensuring that prescribed measuring instruments used for trade are type evaluated for design, construction and accuracy
- ensuring the use of accurate instruments and that pre-packaged merchandise contains the correct quantity
- taking action against importers, manufacturers and retailers that fall short of the required standards
- using designated private verification laboratories to verify measuring instruments on behalf of the Regulator and evaluating the competence of their verification officers
- ensuring traceability of verification and inspection standards
- evaluating test reports of gaming hardware and software and issuing a Letter of Certification as mandated by the National Gambling Act and
- providing input into national, regional and international standards as prescribed by various treaties.

The inspection function, the calibration laboratories and the type approval test laboratories are accredited through the South African National Accreditation System (SANAS). The Division is also seeking SANAS accreditation to underpin its competence as a verification body in terms of the Trade Metrology Act.

Highlights and achievements

Service delivery

The Division received 199 new applications from instrument manufacturers and suppliers for type approval, and issued 103 certificates of approval.

Although the Division lacked inspection capacity due to insufficient funding, it conducted 5 621 market surveillance inspections, 3,3% more than the target for the year. This compares favourably with the 6 099 market surveillance inspections conducted in 2010/11 and 5 401 in 2009/10. The focus of the Division remained on the source of goods, either point of manufacture or point of entry.

During these inspections, the Division evaluated 25 688 samples of pre-packaged products. Table 1 indicates non-compliance.

Table 1

Goods – type of contravention	Incidents of non-compliance	
	2011/12	2010/11
Short measure	3 620 – 14,1 %	22 %
Unmarked goods	594 – 2,3 %	9 %
Incorrect pack size	1 502 – 5,8 %	0,3 %
Other	45 – 0,2 %	0,4 %
Total	5 761 – 22,4 %	31,8 %

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

A total of 18 450 measuring instruments were inspected and the non-compliances in Table 2 were identified:

Table 2

Instruments - type of contravention	Incidents of non-compliance	
	2011/12	2010/11
Verification status lapsed	3 369 – 18,3 %	4 467 – 19 %
Unapproved	494 – 2,7 %	211 – 0,9 %
Accuracy	62 – 0,3 %	162 – 0,7 %
Technical / marking	87 – 0,5 %	73 – 0,3 %
Other	106 – 0,6 %	66 – 0,3 %
Total	4 118 – 22,3 %	4 979 – 21 %

The Division issued 7 982 embargoes, rejected 711 instruments, issued warnings to 1 958 businesses and instituted legal proceedings against 70 repeat offenders on 308 counts.

The cost saving to consumers through removal of non-compliant pre-packed goods from the market and correction of non-compliances, is estimated at R 56,6 m. If it had been possible for the Division to cover 100% of the market, the extrapolated cost saving to consumers could have exceeded R 283 m.

A total of 966 applications were received from the gaming and gambling industry for the evaluation of gaming hardware and software, and 914 Letters of Certification (LOC) were issued.

The Division calibrated 15 118 verification standards which included 13 605 masspieces, 882 volumetric measures and 631 balances.

The Division approved 5 more private verification laboratories to verify measuring instruments, raising the number of designated laboratories to 126.

A total number of 208 theoretical examination papers were written by verification officers to prove their competence and 55 verification officers were practically examined, bringing the total number of qualified verification officers in the private sector to 699. A total of 86 verification laboratories were assessed by assessors supplied by the Legal Metrology Division. This is strategic to the Regulator in that it underpins confidence in the designation of the laboratories to operate under the Act.

The Legal Metrology Review

the dti has provided additional funding to assist with the transition of the Division from a trade metrology-centred division to a legal metrology-centred division, to effectively regulate goods, measurements and services in the areas of health, safety and the environment in addition to the present trade measurements. For this purpose, 21 posts were advertised and the training of the candidate inspectors will commence in the second quarter of 2012/13. It will take 24 months to train them in all aspects of trade metrology.

The Division also assisted **the dti** and the State Law Advisor with the development of a draft Legal Metrology Bill leading to the proposed new Legal Metrology Act.

The Legal Metrology Division provided training not only to its own staff but was also requested to assist with capacity building within other regional legal metrology bodies, namely the Namibian Standards Institution, the Botswana Bureau of Standards and the Democratic Republic of the Congo.

Cooperation with other regulators and standards bodies

During the past year, the Division continued to work closely with other national, regional and international regulators and standards bodies in the field of legal metrology, engaging in the following activities:

- The Division represented South Africa on 28 technical committees of the International Organisation of Legal Metrology (OIML).
- The Division hosts the secretariat of OIML Technical Committee 6, which deals with requirements for pre-packaged goods and arranged a meeting in the USA where 3 documents under development were discussed.
- The head of the Division, as the representative of South Africa, attended the CIML meeting (steering committee for the OIML) in Prague, Czech Republic to review the organisation's technical progress and administrative operations.
- The Division provides the secretariat for the SADC Cooperation in Legal Metrology (SADCMEL). The secretariat arranged the 26th SADCMEL meeting in March 2012 in Lilongwe, Malawi.
- The Legal Metrology Division continued to host the secretariat of AFRIMETS. At the AFRIMETS General Meeting held in Nairobi, Kenya the legal metrology representatives developed an action plan of activities for 2011/12.
- The head of the Division chairs four SABS Committees dealing with legal metrology standards.

The involvement of the Division in these activities ensured that the Regulator remained on the cutting edge of technological developments in the field of legal metrology.

Stakeholder services

The Division held meetings with stakeholders in various market segments to inform and educate them on legal metrology requirements. Two sector committee meetings, namely the Accredited Verification Laboratory Sector and Grain Sector, were held and various stakeholders in the Dairy Industry were consulted with a view of forming a third sector.

In a joint venture between the Division and the Department of Agriculture, Forestry and Fisheries (DAFF), a task team was formed to investigate and advise on the correct use of belt weighers within the fishing industry on the West Coast.

The Division issued press releases warning consumers against possible fraudulent activities used by manufacturers or retailers, e.g. the possible fraudulent re-filling of liquid petroleum gas (LPG) bottles by retailers not taking into account the LPG left in the bottle before re-filling it.

The Division also collaborated with the Food and Associated Industry (FAI) Division of the NRCS to ensure that imported and locally manufactured fish products complied with the requirements of both Divisions.

Challenges

Capacity and funding

One factor among several reasons for the high non-compliance rate of importers, manufacturers and retailers is the lack of surveillance capacity, which is linked to funding constraints. The client base of the Legal Metrology Division spans the entire economy including all manufacturers of pre-packed goods and all users of measuring instruments used in trade. The funding model is therefore the main constraint leading to the Division's lack of capacity. The NRCS welcomes the fact that the funding issue was reviewed by the dti and that additional funding has been made available to build capacity. The possibility of an alternative funding model will also be addressed as part of the Legal Metrology Act Review which is currently underway.

Perishable Products Division, Food and Associated Industries (FAI)

PERISHABLE PRODUCTS DIVISION, FOOD AND ASSOCIATED INDUSTRIES (FAI)

INTRODUCTION

The Perishable Products Division, Food and Associated Industries (FAI) is dedicated to protecting the health and safety of consumers through the administering of compulsory specifications for canned and frozen fish and fishery products, and canned meat.

The objectives of the Division are to:

- protect the health and safety of consumers
- ensure compliance with food and associated regulations
- promote fair trade and protect national and international markets.

FAI is appointed as the Competent Authority for the export certification of fish and fishery products to the European Union.

At national level, the Division works in close co-operation with several other regulators in the food arena. Internationally, the Division participates in activities of the Codex Alimentarius Commission, international sensory evaluation working groups and various international technical co-operation agreements.

Compulsory specifications administered FAI administers compulsory specifications for:

- frozen fish and marine molluscs
- canned fish, canned marine molluscs and canned crustaceans
- frozen rock lobster
- frozen shrimps (prawns), langoustines and crabs
- smoked snoek
- canned meat and canned meat products.

National and international liaison and participation

Interactions were maintained with local industry bodies and international trading partner nations, to clarify and harmonize standards required for fishery products and to inspect processing facilities. Countries and regions engaged with included Vietnam, India, Namibia, Taiwan, Thailand and the European Union.

An advanced international training programme was attended in Stockholm, Sweden on quality structure development in support of world trade and environmental protection.

The World Seafood Congress of the International Association of Fish Inspectors (IAFI) was attended in Washington DC.

The EU-Traces workshop on electronic certification of fishery products exported to EU countries was attended.

Involvement in national and international standards setting

The FAI interacted extensively with local and international authorities to ensure local relevance and maintain standards in accordance with international best practice. The following are some of the highlights during the year:

The Codex Committee for Fish and Fishery Products (CCFFP) was attended in Tromso, Norway, to participate in activities towards the harmonization of standards.

The Codex Alimentarius Commission meeting was attended in Geneva, Switzerland in July.

The 19th session of the Codex Alimentarius Commission on Food Import and Export Inspection and Certification Systems (CCFICS) was attended in Cairns, Australia.

The FAI participated in the Food Legislation Advisory Group (FLAG) meetings held by Department of Health (Food Control), to review the regulatory processes of the Department of Health.

FAI, as a permanent member of the National Sanitary and Phytosanitary (SPS) Committee, participated actively in meetings on issues of national interest.

Liaison was maintained with competent inspection authorities in Brazil, the US, the EU, Mozambique, Namibia, Vietnam and Thailand.

Stakeholder relations

Consumers

All consumer concerns were handled within the specified time frame, and no consumers indicated dissatisfaction with the handling of concerns or on the feedback provided.

Consumers were also addressed or informed through media exposure such as television presentations on safety of imported canned fishery products.

Industry and industry-related

Besides the normal day-to-day interactions between staff and industry, official interactions took place during the year with fishery and can-manufacturing companies and with various industry organisations on specific issues of compliance and to identify and deal with potential problem areas. It is the aim of FAI to assist industry at all levels, to meet the compulsory specifications and other requirements.

A wide range of interactions took place with and presentations made to stakeholder bodies on matters including food safety and fraudulent labelling issues, consumer protection relating to imported products, inspection and the training of inspectors, and a fish aqua-culture monitoring and control programme.

Statistics of inspections

The number of FAI inspections, certificates issued, rejections, sanctions, sales permits issued and sampling in test laboratories for 2011/12 are set out in Table 3:

Technical inspections	Total for 2011/ 12
1. Import & Export	
Number VC's regulated	6
Number of Canned Imported Consignments Inspected	6552
Number of Frozen Imported Consignments Inspected	2306
Number of Frozen Export Consignments Inspected	4517
Number of Live Export Consignments Inspected	5447
Number of Chilled Fish Export Consignments Inspected	2991
2. Local	
Number of Canned Fish Inspections	1972
Number of Canned Meat Inspections	3816
Number of Frozen Seafood Inspections	973
3. Certificates Issued	
Number of Compliance Certificates issued	15257
Number of Health Guarantees issued/Export Certificates	11845
4. Rejections	
Number of Non Compliance Certificates Issued - Substandard	258
Number of Non Compliance Certificates Issued - Not for Sale	405
Number of Directives Issued	37
5. Inspections	
Number of Factory Inspections	253
Number of Vessel Inspections	449
Number of Retail Inspections	20

Technical inspections	Total for 2011/ 12
6. Sanctions	
Number of Illegal/Non Compliant Products Removed from the Shelves	1
7. Customer Concerns	
No. Received	13
No. Handled/Completed	13
No. Handled within specified time	13
8. Customer Complaints	
No. Received	0
No. Handled/Completed	0
No. Handled within specified time	0
9. Sales Permits Issued	
Imported Canned Fish products	5
Imported Canned Meat products	0
Imported Frozen Fish products	3
Local Canned Fish products	14
Local Canned Meat products	7
Local Frozen Fish products	1
10. Sampling to Test Laboratories	
Number of Samples from the Local manufacturers	15253
Numbers of samples from the importers	9612

Table 3

Non-compliant goods prevented from entering into, or removed from the market

Total number of directives issued

A total of 37 prevention or removal directives were issued during the year under review, relating to non-compliant goods prevented from entering into the market, or which had already entered the market and the removal of which was directed.

A total of 20 directives were issued in respect of imports, five in respect of exports, and 12 related to locally produced goods prevented from reaching the consumer body.

How the division helped the consumer, industry and government

Consumers

Our objectives in ensuring food safety and therefore consumer protection were achieved, as no evidence of consumer illness or death from products regulated by FAI was reported to us.

The safety and quality of products was improved through constant and increased focus on preventive actions at the manufacturer (nationally as well as internationally) or through the implementation of corrective action measures or appropriate sanctioning.

Safety of food products cannot be guaranteed by testing of final products alone and therefore stringent monitoring and inspection of products, processes and processing establishments is implemented, both nationally and internationally. In addition, there is increased emphasis on the manufacturer's responsibility to manage food safety.

Consumers were also addressed or informed through media exposure, such as television interviews, media releases in the tabloids and radio interviews.

A large variety of unsafe fishery products were prevented from entering the market, or were withdrawn from the market and destroyed.

Industry

Industry, both locally and internationally, was given technical support with the interpretation of food law, which assisted in the enhancement of fair trade.

Inspector training

Heavy emphasis, including thorough training, is placed on ensuring the technical competence of our inspectors. The Division also constantly strives to keep abreast of technology and to benchmark itself with other regulators, both nationally and internationally.

Highlights and achievements

Notable highlights and achievements during the year under review included the following:

Various internal audits, as well as an EU investigation took place during the year. All audits and system reviews indicated that the Quality Management System is well entrenched and performing to requirements and expectations. The EU investigation confirmed FAI's "Competent Authority" status.

Many highly successful contributions were made to the proceedings of the April 2011 Session of the Codex Committee for Fish and Fishery Products held in Tromso, Norway, by the South African team led by the NRCS.

A television interview was conducted by the TVPC Film and Media Company. The programme was aired and certain issues pertaining to the presence of varying levels of methyl mercury in frozen fishery products were put into perspective.

Presentations made at the International Association for Fish Inspectors (IAFI) World Seafood Congress in Washington DC were well received.

The SANAS audit conducted during October 2011 indicated no serious shortcomings in the Division's Quality Management System and the Division retained continued accreditation (since 1998).

Certain voluntary and national recalls of both locally produced and imported canned fishery products, which posed a risk to human health, were successfully conducted.

Challenges for the year under review

There remains a shortage of dedicated and qualified personnel to maintain the service as required.

Staff grievances resulted in strike action, which had a serious impact on service delivery.

Illegal imports and other similar cases occur where FAI is not informed by Customs/Port Health of products falling under our jurisdiction that are entering the country.

Significantly less fishery products were produced for the export market due to the poor economic environment. Some traditionally safe markets became unavailable, which raised stocks of perishable products with limited storage life. The continued decline in the volume of fish and fishery products exported impacted negatively on the levy income of the Division.

In various instances, bad quality and unsafe products had to be destroyed or returned to country of origin. FAI had to ensure that South Africa does not become a dumping ground for non-compliant products.

Non Perishable Products Division

NON-PERISHABLE PRODUCTS DIVISION

INTRODUCTION

The Non-Perishable Products Division (NPPD) consists of three market surveillance departments, namely electrotechnical; automotive; and chemical, mechanical and materials (CMM). The regulatory scopes of the three departments are illustrated in Table 4.

Table 4: NPPD departments and their regulatory scopes

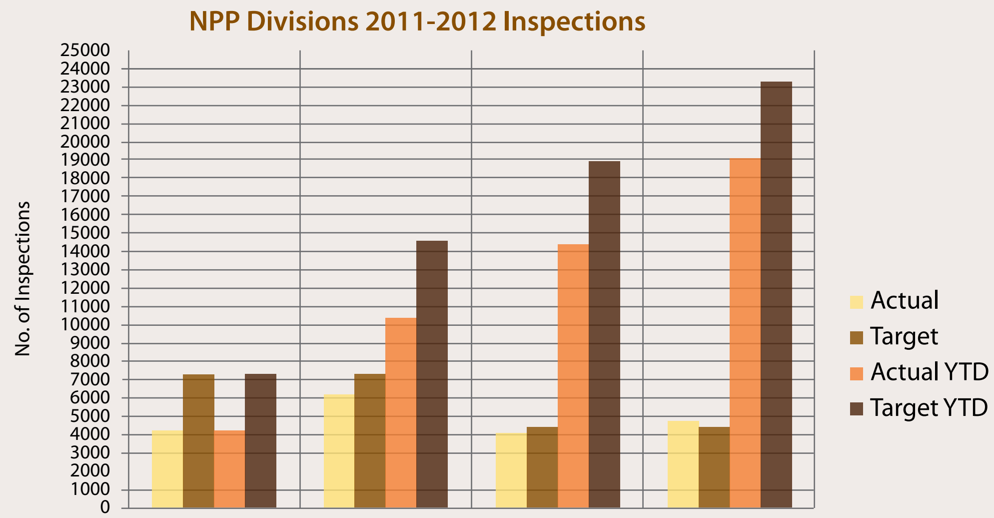
Department	Regulatory Scope	Examples of Products Regulated
Electrotechnical	16 compulsory specifications spanning a wide spectrum of electrical and electronic products. The department also operates under the mandate of other government departments, for example, the Department of Labour.	Electric heaters, plugs, adaptors, electric cables, lamps, circuit breakers, switches, Compact Fluoresent Lamps (CFLs), televisions, refrigerators, air conditioners, and other household appliances.
Automotive	22 compulsory specifications applicable to motor vehicles and certain replacement components and accessories. Also regulates vehicle manufacturers, importers and builders under the mandate of the Department of Transport	Passenger vehicles, tractors, commercial vehicles, trailers, motor cycles, tyres, towing brackets, replacement parts for safety glass, elastomeric cups and brake linings
Chemical, Mechanical and Materials	14 diversified compulsory specifications including construction materials, health-related products, flame-producing devices, personal protective equipment and environmental protection.	Plastic carrier bags, cement, treated timber, paraffin stoves, respirators, swimming aids, safety footwear, biological safety cabinets, cigarette lighters and disinfectants.

Inspections form the cornerstone of the Division's market surveillance activities. An effective inspection is one that eliminates non-compliant products from the market and assures that the products left in retail outlets do not endanger the safety, health or other issues of environmental protection of the public

Overall performance

Inspections

During the year under review, the NPPD did not achieve its target on inspections. It recorded 19 115 inspections compared to a target of 23 320, thus a negative variance of 18%. The quarterly inspection trend over the financial year is illustrated in Figure 1. The target was not met due to a number of challenges which included unforeseen capacity constraints, including four weeks of industrial action by inspectors.



	Q1	Q2	Q3	Q4
Actual	4190	6189	4033	4703
Target	7287	7287	4373	4373
Actual YTD	4190	10379	14412	19115
Target YTD	7287	14574	18947	23320

Fig. 1 NPPD market surveillance inspections over the review year

All three departments recorded negative variances on inspections, mainly due to the foregoing reasons. Table 5 illustrates the performance of each NPPD department.

Table 5 Inspections performance by department

Department	Target inspections	Inspections achieved	Negative variance
Electrotechnical department	7600	6419	15.5%
Chemical, Mechanical and Materials department	8160	7288	8.9%
Automotive department	7560	5408	28.5%
Total	**23320**	**19115**	**18.0%**

Approvals/homologations

The NPPD issues pre-market approvals for certain regulated products that meet the set requirements. During the period under review, the CMM and automotive departments achieved their set target of carrying out pre-market approvals or homologations within the set turnaround time of 21 days. However, capacity constraints were encountered in the electrotechnical department.

- The CMM department approved 514 applications
- The automotive department approved 9 557 applications
- The electrotechnical department approved 8 369 applications.

Testing

Using statistical sampling techniques, the NPPD takes random samples of regulated products on the market for testing to verify compliance. A number of samples were sent to accredited third party laboratories for testing against the requirements of the relevant compulsory specifications, at a cost of at least R4 million.

Sanctions

When non-compliant products are found on the market, sanctions are taken against offenders. Such sanctions may include confiscation and destruction of products or the return of such products or consignments to their country of origin and further action as may be decided by the NRCS Board.

In the 2011/2012 financial year, approximately 97,4% of the CEO directives were issued within the target turnaround time of 72 hours, with a total of 745 directives being served by the three departments. Electrotechnical issued 461 directives while CMM and Automotive served 234 and 50 directives respectively.

Quality Management System

The three departments are accredited to South African National Standard (SANS) 17020 for inspection bodies and operate a quality management system which is geared to give a high level of assurance in respect of reliability, consistency and repeatability.

During the period under review, all three departments successfully maintained their accreditation status after undergoing annual assessment by the South African National Accreditation System (SANAS) and increased the number of technical signatories.

Highlights and achievements

The NPPD had a number of notable events, projects and highlights during the period under review. The following can be considered the highlights:

Border Enforcement Pilot Project

In line with its mandate, which is further clarified by the Industrial Policy Action Plan (IPAP), the NRCS commissioned a pilot project at Durban Harbour with the key objective of developing a border enforcement strategy. The Port of Durban accounts for up to 60% of South Africa's inbound and outbound volumes of trade.

A total of 473 containers and 51 vehicles from a batch of 132 were inspected, and 47 containers (9,9%) and 29 vehicles (22%) were found to be non-compliant. The extrapolated value of the goods inspected at the container depots between October and December 2011 was about R130 million.

Non-compliant product destructions

Inherently unsafe and sub-standard products that were surrendered voluntarily by clients or were found on the market were destroyed at several product destruction facilities across the country. The products destroyed included paraffin stoves, electric heaters, lawnmowers, fans, electric kettles, audio-visual equipment, plastic carrier bags, dust masks, respirators, disinfectants, plugs, socket outlet adaptors, motorcycle helmets and toasters, with a value of over R5 million.

International visits

NPPD staff participated in several international engagements including technical committees and working groups, meetings, information sharing and carrying out inspections and evaluations.

Stakeholder engagements

Stakeholders including government departments, test houses, industry associations and individual manufacturers and importers are increasingly pressing for a say in the NRCS regulatory activities, calling for more transparency and accountability. The Division participated in numerous stakeholder meetings, including regular quarterly meetings by each department with industry to share information and experience as well as address concerns and queries.

Major challenges

Major operational challenges encountered by the NPPD during the period under review included:

- Accredited testing capacity for certain product areas remained problematic, compounded by what appeared to be falling standards within certain test laboratories. Testing capacity problem areas included motorcycle helmets, brake fluid and some electrical and electronic apparatus such as CFLs and electric blankets.
- The long turnaround times offered by many of the testing facilities prevented timely action against non-compliance.
- Certain suppliers engaged in wilful evasion by moving their non-compliant products from province to province and area to area to avoid the Regulator.

Going forward

The NPPD is determined to exclude non-complying products from the market through increased focus on Border Enforcement to include all significant ports of entry, including sea ports, inland border points and airports.

An increased scope of regulatory activities is expected as new compulsory specifications are developed, including on energy efficiency, solar water heaters, safety glazing materials for buildings, and components of fixed electrical installations.

On a positive note, there have also been a growing number of organisations and industry associations which voluntarily complied and were eager to work with the Regulator.

Regulatory Research and Development (RR&D) Division

REGULATORY RESEARCH AND DEVELOPMENT (RRD) AND NATIONAL BUILDING REGULATIONS (NBR) DIVISION

INTRODUCTION

The Regulatory Research and Development (RRD) Division is responsible for:

- the development and updating of all compulsory specifications and technical regulations published under the NRCS Act, the Trade Metrology Act and the National Building Regulations and Building Standards (NBRBS) Act;
- conducting research relating to the general mandate of the organisation and regulatory issues; and
- the administration of the NBRBS Act and regulations (including the Review Board).

This work involves, amongst other things, feasibility studies, risk assessments and impact assessment studies and extensive stakeholder consultations with all affected and interested parties to ensure transparency on the proposed regulatory intervention. The Division also represents the organisation in national, regional and international forums.

The need to focus on sustainability was an important aspect of RRD activities during the period under review. The incorporation of compulsory-specifications that support the sustainable use of natural resources and protect the environment is becoming increasingly important. This has also been identified as a priority issue by **the dti**'s Industrial Policy Action Plan (IPAP). Support for 'green' and energy saving industries such as solar water heaters, energy efficiency, water efficiency and energy efficient vehicles informed the RRD Division's priorities.

Overall performance

The RRD Division was responsible for the development and finalization of seven new and amended compulsory specifications and technical regulations. Furthermore, the Division recommended the withdrawal of three compulsory specifications in the areas of Automotive as well as Chemical, Mechanical and Materials industries.

The new compulsory specifications cover hot water storage tanks for domestic use (submitted to the NRCS Board for approval), solar water heaters (submitted to the NRCS Board for approval), and pressurized paraffin appliances (published for public comment in the Government Gazette).

The amended compulsory specifications include the specifications for plastic carrier bags and flat bags (submitted to the NRCS Board for approval), frozen fish, marine molluscs and associated products (submitted to the NRCS Board for approval) and non-pressure paraffin stoves and heaters (submitted to the NRCS Board for approval).

The new technical regulation finalized under the Trade Metrology Act related to non-automatic weighing instruments (submitted to **the dti** for final gazetting).

The proposed withdrawal of the compulsory specifications for firearms for civil use (proofing), retro-reflective number plates for motor vehicles, and material for contour marking for motor vehicles were submitted to the NRCS Board for approval. Several research projects were undertaken. Extensive research was done to inform feasibility studies and risk and impact assessments. Research projects which were finalized covered the investigation into the introduction of a technical regulatory mark for the NRCS, an economic impact assessment for the energy efficiency of appliances (**the dti** funded and managed), a National Building Regulations project for the development of training material for incorporation into the University of Free State graduate course for architects, an impact assessment for plastic bags, an impact assessment for the proposed new technical regulation for solar water heaters, and an impact assessment for the proposed new technical regulation for domestic hot water storage tanks.

A total of 11 requests for NBR Review Board intervention were received. Nine cases were pursued and seven of these were referred to the Review Board well within the strategic target period of 60 working days. Nine hearings of the Review Board took place and were successfully concluded in several municipal areas.

Highlights and achievements

Compulsory Specifications (VCs) and Technical Regulations (TRs)

Several notices were published by **the dti** in the Government Gazette during 2011/2012, as follows (with final gazetting date):

- ***New VCs and TRs:*** Category L vehicles (27 May 2011); energy-efficient buildings (9 Sept 2011); safety footwear (9 Sept 2011); safety glazing materials for buildings (22 July 2011); pressurized paraffin-fuelled appliances (l3 Feb 2012); live aquaculture abalone (22 July 2011); and a Trade Metrology regulation for instruments for the measurement of cryogenic liquids (28 October 2011).
- ***Amended VCs and TRs:*** Respiratory protective devices (13 May 2011); cord sets and cord extension sets (3 Feb 2012); Category O1 and O2 vehicles (caravans and light trailers) (22 July 2011); automatic weighing instruments (9 Dec 2011); and belt weighers (22 July 2011 and 3 Feb 2012).
- ***Correction notices:*** Motor vehicles of categories M1 and N1 - emission requirements correction (5 Aug 2011); and electrical and electronic apparatus test requirements correction (5 Aug 2011).

The Project Approvals Committee (PAC) of the RRD Division is responsible for the review and approval of all final feasibility, risk and impact assessments for all technical regulation projects before submission to the NRCS EXCO, NRCS Board and **the dti** for promulgation. During the 2011/2012 year the PAC approvals included:

- ***Feasibility assessments*** for the review of the proofing of firearms; the development of training material for use in skills development as per the SA Institute of Architectural Technologists; the measurement of raw water under the Trade Metrology Act (not feasible); compact fluorescent lamps; electrical and electronic appliances; the withdrawal of material for the contour marking of motor vehicles; the withdrawal of retro-reflective number plates for motor vehicles; earthmoving equipment (not feasible); plumbing components (move regulation from Water Services Act to NBR); safety helmets for motorcyclists; and a consolidated VC for motor vehicles and their trailers (not feasible).
- ***Risk assessment*** for domestic solar water heating systems.
- ***Impact assessments*** for pressurized paraffin-fuelled appliances; plastic carrier bags and flat bags; domestic hot water storage tanks; domestic solar water heating systems; and firearm proofing (withdrawal of VC).

Trade Metrology

A policy document was prepared on the suitability of measuring instruments for use under the Trade Metrology Act and exemptions from compliance with Act requirements, and the draft Legal Metrology Act that is being prepared by **the dti** and the State Law Advisors was reviewed on several occasions.

Technical Regulations

Technical regulations projects that were proposed are awaiting progress of national standards before continuing include liquid meters other than water, automatic rail vehicle scales and taxi meters. The Department of Transport has withdrawn its intended assistance with regulating taxi meters.

Technical regulations for instruments used to measure gases and multi-dimensional length measuring instruments have been identified as necessary, but national standards setting out technical requirements still need to be developed.

Standards

Research and technical input provided to national standards in various stages of completion relates to continuous totalizing automatic weighing instruments (belt weighers); non-automatic self-indicating, semi-self-indicating and non-self-indicating weighing instruments with denominated verification scale intervals; labelling requirements for pre-packaged products (pre-packages) and general requirements for the sale of goods subject to legal metrology control; the competence of verification laboratories; non-automatic beam scales and balances subject to legal metrology control; and evidential breath analyzers. The input ensured that requirements were technically correct and that regulatory requirements were adequately catered for.

National building regulation section

To ensure uniform application and understanding of the NBR&BS Act nationally, the National Building Regulations section provided technical advice and interpretation of the NBR&BS Act; performed building defects inspections as an impartial party; evaluated the qualifications of Building Control Officers; conducted workshops and training on the NBR&BS Act and its regulations; acted as a regulator within technical committees developing building standards; and administered the Review Board.

Summary of activities

Presentations done (19), technical committees attended (27), input to official meetings (61), Review Board hearings conducted (9), conferences attended as presenter (9), training sessions presented (9), and conference hosted (1).

Highlights and achievements

- In support of the MoU between the SA Institute of Architectural Technologists (SAIAT) and the NRCS to develop energy efficiency skills within the building industry, the involvement of the NRCS, by inviting municipalities to attend courses and by chairing the project steering committee, proved to be key in the successful testing of the course material and creating awareness of the need to comply with legislation
- A total of 772 Building Control Officers were trained on the new regulations for energy-efficient buildings
- A presentation was made to the University of the Orange Free State regarding academic training on the National Building Regulations. The University has agreed to take the course material developed with the supportive Swiss programme and turn it into a six-month semester course
- The annual Building Control Officers' Convention was successfully hosted at the CSIR Conference Centre in Pretoria. The delegates expressed their utmost satisfaction and were grateful for **the dti** co-hosting the event. The NRCS was also presented with a recognition and appreciation award
- Building Control Officers' Steering Committee meetings were held quarterly as planned in different provinces and
- A dti representative and the NBR Technical Advisor visited Melbourne, Australia as guests of the Building Commissioner of the State of Victoria and were exposed to valuable training sessions and material.

Regional and international involvement

Regional and international work

SADC

The NRCS continued to play a leading role in the region with regard to developing and advancing trade metrology. The RRD and Legal Metrology Divisions worked together in this respect.

Meetings

A representative of the SADC Cooperation in Legal Metrology (SADCMEL) Secretariat attended the 26th SADCMEL meeting and SQAMEG meeting in Lilongwe, Malawi in March 2012, and stood in as Regional Coordinator. A SADCMEL Project Management Committee meeting was also attended during the same period. Attendance at the above meetings furthered the commitment of the NRCS to play a leading role in regional matters of interest. It also ensured that NRCS received exposure as a leading regulator in the field of legal metrology and associated fields.

Technical work

Chairs the SADCMEL Technical Committee 1 (TC 1) and is responsible for SADCMEL documents 1 and 4 which deal with SADC-harmonized requirements for the sale of goods (package quantity labelling and accuracy of measurement). At the request of South African manufacturers, a motivation was made to SADCMEL TC 1 at the meeting in March 2012 to amend the harmonized requirements. This was agreed to and similar amendments will shortly be made to SANS 289, the South African equivalent.

Training

A presentation entitled "Experiences with referencing national standards in Legal Metrology Technical Regulations in South Africa" was made at a workshop on the use of standards as technical regulations, at the time of the SQAM meetings in Lilongwe in March 2012. Six training courses were also presented to legal metrology officials of the Namibian Standards Institution in November 2011 and February 2012.

COMESA/EAC/SADC Tripartite MoU Expert

Group Meeting

A representative attended a Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Southern African Development Community (SADC) Tripartite MoU meeting in October 2011. This meeting of experts was called to discuss an action plan for regional upliftment in the areas of Standards, Quality Assurance, Accreditation and Metrology (SQAM).

OIML TC 6

As part of the OIML TC 6 Secretariat, a representative gave input to the drafting of international documents under development or revision by OIML TC 6; the preparation of a new draft of OIML R 79 which deals with quantity labelling of prepackages; and the preparation of draft discussion points for the revision of OIML R 87 which deals with the accuracy of packing and test methods for prepackages.

OIML TC 6 Meeting

A meeting of OIML TC 6 was attended in Gaithersburg, USA in September 2011 where international comment on the revision of OIML R 79 and OIML R 87 was discussed. Assistance was also provided with the production of further drafts for comment. OIML R 79 and OIML R 87 serve as the base for the SADC and therefore South African requirements. As far as possible, local requirements are catered for in the international documents.

WP.29 (World forum for the harmonization of vehicle regulations)

Three WP.29 meetings were attended during the year. Under the 1958 Agreement, there were 110 amendments to the UN ECE Regulations, of which 70 amendments affected 45 regulations that are referred to in the motor vehicle compulsory specifications. Some of these amendments also affected requirements of the Road Traffic Regulations. Two amendments were proposed to and approved by the Department of Transport Technical Committee.

WP.29 has shown great interest in the NRCS's involvement within the region, and a presentation was made to the forum on the progress being made with the harmonization of regulations within the tripartite (SADC, COMESA, EAC) group.

A representative also participated as member of the WP.29 Working Group on International Whole Vehicle Type Approval (IWVTA). A presentation was made as to the stringency level of UN regulations being implemented in the South African compulsory specifications. The working group is drafting a proposal to allow Member States to allow type approval to a lower level. This is to encourage UN Member States to become signatories of the UN 1958 Agreement.

The Tripartite (SADC, COMESA, EAC) group of experts on the harmonization of vehicle regulations

One tripartite group meeting was attended during the year, in Uganda. Four items for harmonization were under discussion, i.e. roadworthiness of motor vehicles, evaluation of vehicle test stations, the transportation of dangerous goods, and the transportation of abnormal loads. In all four cases, the South African legislation and national standards have been amended as regional documents and submitted to Member States as working documents. Two presentations were made to Member States, one on the South African compulsory motor vehicle specifications, including the NRCS MIB requirement, and the second, on the workings of the UN WP.29 forum. Member States were encouraged, as per the request from the UN, to consider attendance.

International training

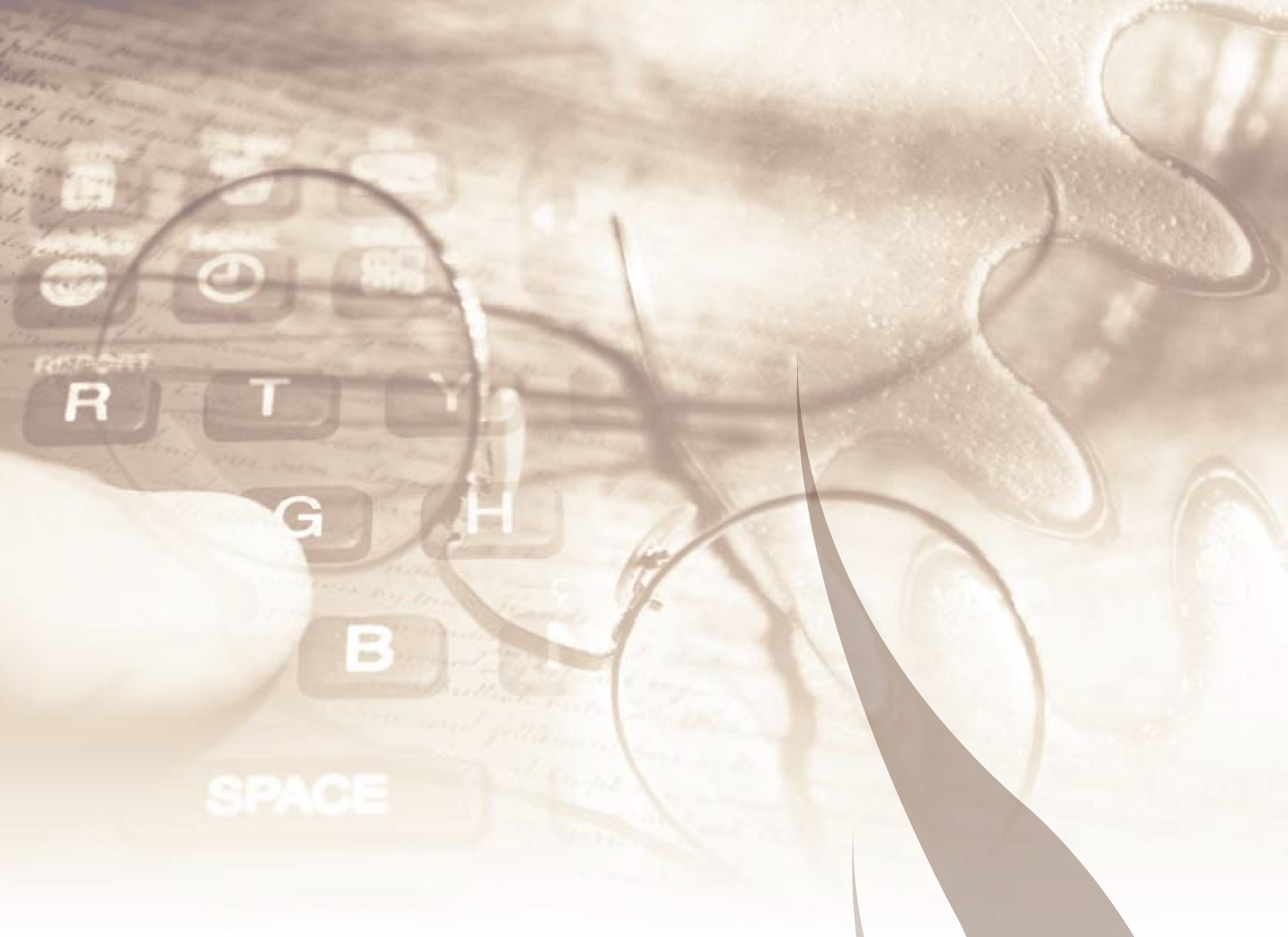
An RRD technical specialist attended a week-long EU training course on regulatory impact assessments in Rome, Italy during 2011.

Going forward

The RRD Division's goals/objectives in support of the NRCS Strategy going forward include the development of future research capability to inform policy and legislation; the review and development of appropriate technical regulations; and representing the national interest with respect to technical regulations at multilateral forums.

The strategic target for developing and maintaining compulsory specifications and technical regulations for the coming year is the finalization and submission of 11 projects for approval.

The National Building Regulations administration/enforcement function within the RRD will function independently of the RRD Division in future. This may require changes to legislation and capacity building within the NRCS to enable the NRCS to fulfil its mandate. The NRCS role as regulator in this regard is unique as it does not have the legal powers to enforce building regulations, these powers resorting with local authorities.



Corporate Services Division

CORPORATE SERVICES DIVISION

INTRODUCTION

The purpose of the Corporate Services Division is to support and enable the NRCS to fulfil its strategic and operational mandate.

The NRCS has suffered considerable conflict on labour and disciplinary issues in the past year. Turning this situation around through building an enabling environment for the organisation to function effectively was an important area in which the Corporate Services Division was required to provide expert support.

Human resources

The Human Resources Department is a strategic business partner in the value chain of the NRCS. Its objective is to provide human capital to support an enabling organisational environment in which highly motivated employees can deliver quality, efficient and effective services to the NRCS – in short, the right people with the right skills at the right time to deliver on the organisation's mandate.

For the organisation to achieve its strategic goals, the Human Resources Department must ensure that an appropriate talent management process is in place. The Department itself still needs to be capacitated in critical areas to ensure the continuous delivery of services to the line departments.

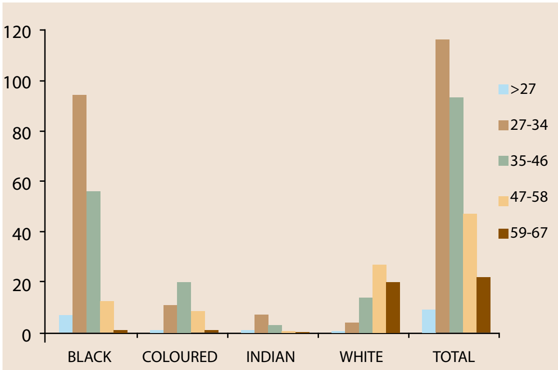
Staff turnover

Staff turnover decreased from 4,7% to 3,5% during the year, which can be attributed to labour market conditions. During the reporting period, the NRCS experienced 50% of resignations at Management level. It is of major concern that critical skills were lost, and the NRCS has no succession plan to mitigate further risk. The succession policy has not been implemented; however, the NRCS is giving the necessary consideration to this.

Table 6

Employees at start of period:290		
Add:	New Staff:	12
Less:	Resignations:	10
	Deaths:	1
	Dismissals:	1
	Retirement:	2
Employees at end of period:		288
Staff turnover (%):		3,5%

Figure 2: Age Distribution of Staff



Organisational development

The NRCS has identified a number of organisational development interventions that will assist in creating a conducive working environment. During the reporting period, a process to review the organisation's structure was undertaken to enable achievement of its strategic objectives and performance plans. Employees were consulted and as a result of objections and questions received, it was decided that the process be extended for further consultation.

Critical positions that were not graded previously were profiled and graded. This process will continue into the new financial year until all positions are profiled and graded.

In terms of ensuring employment equity at the NRCS, the challenge is to drive the strategy for target setting in respect of race, gender and disability to enable the organisation to change its demographic profile within the different occupational levels to reflect the demographics of the country's economically active population. The organisation will strive to access the labour market to attract people with disability in the coming year.

A review of human resources policies has commenced and is expected to be completed in the first half of 2012/13.

Employee relations

The past year was marred by industrial action when salary negotiations between Management and NEHAWU deadlocked. The dispute could not be resolved by the CCMA, and **the dti** facilitated an independent mediation process. A settlement agreement with NEHAWU was concluded.

Currently two disputes are before the Labour Court for review and six disputes are at the CCMA, and will continue into the coming year.

Challenges during the reporting period included a negative labour relations atmosphere but Management and NEHAWU are engaging on a continuous basis to resolve them. Training and development included the areas of communications, diversity training, internal auditing and IT skills training. The training and development of employees remains a challenge into the coming year as this area is under-capacitated and certain immediate challenges need to be addressed. These include proper induction training for all NRCS employees and training on the promotion and maintaining of discipline in the organisation.

Health, safety and wellness

The objective of employee health, safety and wellness is to provide an environment in which healthy, productive NRCS employees are able to contribute to organisational and personal success as well as to ensure that the NRCS remains compliant with the Occupational Health and Safety Act.

The organisation supports a wellness programme that provides a consultation service to staff and, with the assistance of an externall service provider, provides an employee assistance programme.

Table 7: Wellness Consultations for 2011/12

Wellness Consultations	
External (Careways)	22
Internal	147
Injuries on Duty	7

Chronic disease management and support for NRCS employees is provided by a qualified Occupational Health Practitioner.

Communications and marketing

The Communications Department plays an integral role in realising the organisation's mandate as outlined in the overview. It therefore drives one of the key strategic goals of the organisation – To inform and educate stakeholders, industry and consumers on the obligations of the NRCS with respect to specifications and technical regulations. In order to achieve this goal, the Department planned and implemented various communication related activities during the 2011/2012 financial year.

Consumer education

The Communications Department, in conjunction with other stakeholders such as the National Consumer Forum and the Provincial Departments of Economic Affairs' Consumer Offices held community meetings in different provinces of the country as part of the consumer education programme to raise a high level of awareness on the NRCS, its policies and programmes. These were held in Vryheid, Ladysmith, Bloemfontein and Mafikeng to facilitate dialogue with members of the community.

Media liaison services

The Communications Department has forged a good relationship with the media and thus explores all media platforms to disseminate information on the organisation to the public.

Media statements and alerts

The following media statements were distributed to the media and thus assisted in raising a high level of awareness on the organisation and its programmes:

- Alleged fraudulent activities on the sale of liquid petroleum gas.
- Development of the live aqua-cultured abalone compulsory specification (VC) by the organisation
- Court case against County Fair for repeated non-compliance
- The distribution of non-complying toilet paper to various charities as part of celebrating Mandela Day
- The destruction of non-compliant products by the NRCS
- Recall of non-compliant extension cords
- Building Control Officers' convention

These statements were published in 15 print media and received coverage in six electronic media.

In addition, the Department offered commentary on various topical issues, among others the child restraints compulsory specification, the conversion of a minibus which was used as a scholar transport, emergency exits in public transport, the state of electrical appliances, non-compliant baby seats, the alleged poor quality of non-compliant cement imported into the country, illegal tyres, weights and measurements of products, non-compliant disinfectants and detergents, the compulsory specification on light vehicle headlights, unsafe plugs and energy efficiency in buildings.

Media events

The Department organised a radio link-up with 30 Community Radio Stations across the country aimed at educating consumers on the role of the organisation and products that it regulates.
Communications drafted and facilitated placement of the levy consultation notice in various newspapers

Stakeholder engagements

The Communications Department makes presentations at SANCU quarterly meetings to promote the work of the organisation. SANCU meetings are attended by various organisations such as the Financial Services Board (FSB) National Credit Regulator (NCR) and National Consumer Forum (NCF).

The Department facilitated participation of the NRCS at this year's Cell C Take a Girl Child to Work Campaign and hosted girl learners from Pretoria High School for Girls, who were taken through the operations of the organisation.

The Department, together with the Paraffin Safety Association of South Africa, launched the paraffin safety campaign to educate consumers on non-complaint safety paraffin stoves and heaters.

Industry communication

Communications, working together with Divisions, compiled, contributed and edited articles for various trade publications targeting the Industry as follows:

- Automobile magazine – regulation of two bars
- EE Publishers – recall of non-compliant products, SGA products
- Walls and Roofs – new standard on energy usage in buildings
- S&V Magazine – the Safety Footwear compulsory specification

Marketing and branding

Online marketing

The NRCS website and Facebook page are maintained and updated regularly.

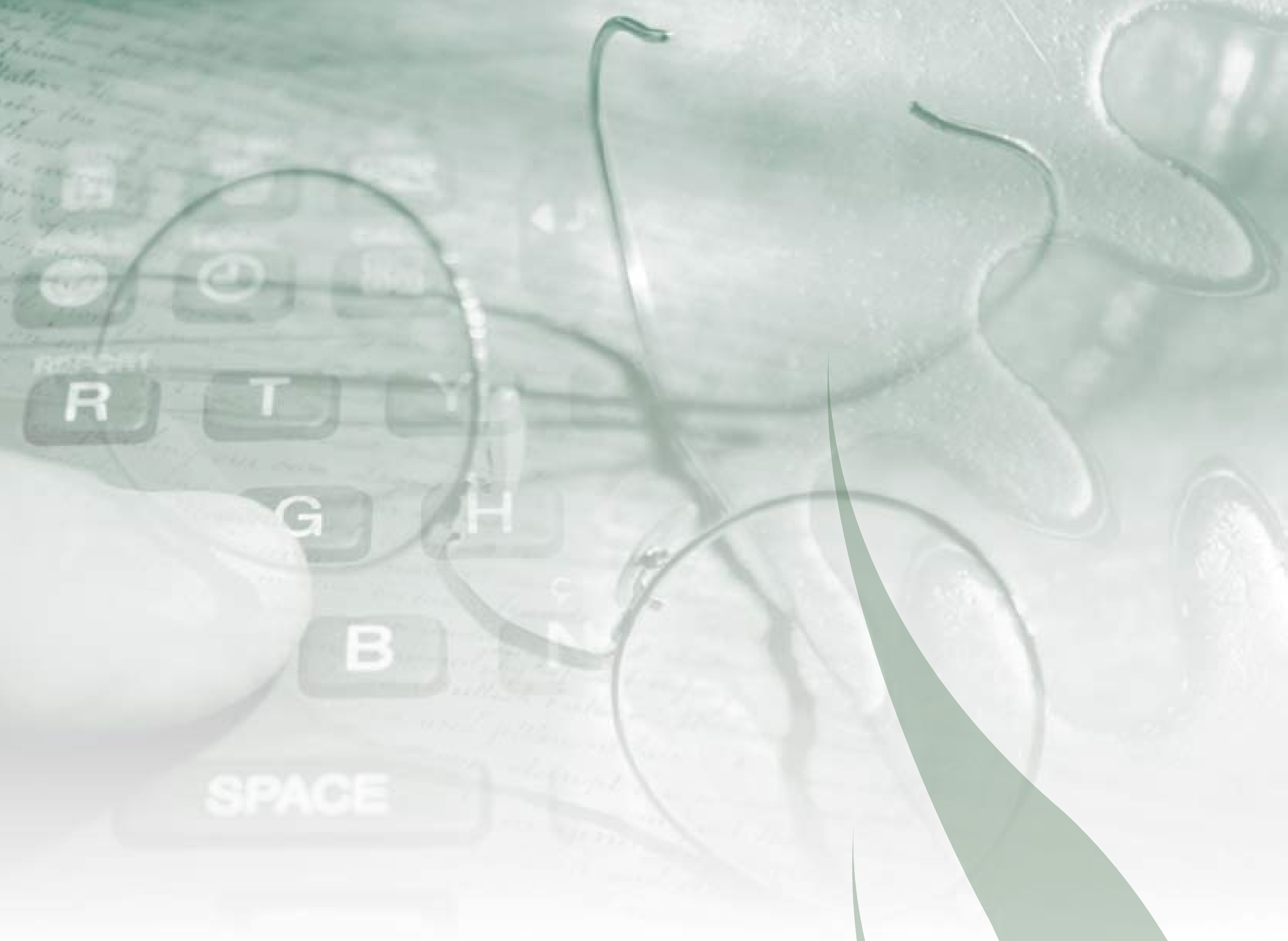
Exhibitions

The following exhibitions were held to market the organisation and educate the public on the organisation's programmes and policies.

- the dti Open Day
- The annual Rand Easter Show
- The African Access National Business Awards attended by more than 200 top South African companies
- The Paraffin Safety Association Winter campaign event

Billboard advertising

The Department facilitated the placement of NRCS marketing billboards at the Durban, Cape Town and Johannesburg railway stations.



Report of the Audit and Risk Committee

REPORT OF THE 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 2012 duties, the Audit and Risk Committee ensured that a PFMA and Treasury Regulation compliant Board approved Charter and Board was in place

Audit and Risk Committee members and attendance

The Audit and Risk Committee in place for the year ended 31 March 2012 consisted of three non-executive members of the Board and two independent external members. Two of the three non-executive members of the Board and one independent external member constituted a quorum. The Audit Committee, consisting of the members listed below, convened five times during the year under review.

Independent Non-Executive Members	Number of meetings attended
Nico Vermeulen	3
Dora Ndaba	5
Sadhasivan Perumal	5
Tshepo Mofokeng	3
Nick Nicholls (Acting Chairperson)	5
Kumuran Naidoo (DTI Representative)	1

The Chief Financial Officer, the Chief Internal Audit Executive, and representatives of the Auditor General of South Africa (AGSA) are standing invitees at each meeting of the Audit and Risk Committee which has direct access to these attendees in the fulfillment of its duties. Executives and managers are invited to attend for agenda items covering audit findings or business matters which relate to their job descriptions.

Audit and Risk Committee responsibility

During the financial year under review the Audit Committee has complied with its responsibilities arising from section 38(1)(a) of the PFMA and Treasury Regulations 3.1.13. The Audit and Risk Committee also has appropriate terms of reference in the form of its Audit and Risk Committee Charter and has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Effectiveness of internal control

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

From the various reports of the In- House and Co-Sourced Internal Auditors and the AGSA, the Audit and Risk Committee noted the continued existence of significant weaknesses in the internal control environment, as well as instances of non-compliance with laid down procedures.

The business environment of the organisation was severely disrupted by labour issues for a large part of the reporting year. The CFO resigned and was only replaced by an outsourced acting CFO towards financial year end. A CFO has now been appointed and will commence duty on 01 August 2012. A number of investigations were conducted during the reporting year which resulted in certain senior people in the organisation being suspended and having to be replaced by persons acting in these positions. This disrupted the operations of the organisation resulting in poor governance and unacceptable control deficiencies being experienced during the financial year.

Internal Audit has been established on an in-sourced basis with in-sourced staff being supplemented by outsource of certain specialist planned and ad hoc assignments. The Chief Audit Executive resigned during the year and for the remainder of the year the Internal Audit section was inadequately resourced. A new CAE is currently being sourced and the Board has authorised a co-source internal audit arrangement which is in the process of being implemented.

Serious concerns regarding weaknesses in procurement, payroll and IT controls have been identified. Management have developed and are implementing a plan to address these control weaknesses and regular progress reports will be submitted to the Audit and Risk Committee. We note that IA and AGSA findings from the previous financial year are still largely unresolved. This situation is regarded as serious and if not dealt with urgently and satisfactorily during the current (2012/13) year is likely to affect the AGSA's audit opinion in future years. At the request of the Audit and Risk

Committee management has developed and are implementing a plan to address these control weaknesses and regular progress reports will be submitted to the Committee.

In line with the PFMA, Internal Audit plans are provided to the Audit and Risk Committee and Management with assurance that internal controls are appropriate and effective. This is achieved by means of an appropriate quarterly reporting process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. The Internal Auditors use this risk framework to prepare their audit coverage plan and to prioritise audit work in the high risk areas.

Based on the audits conducted and presented to the Audit and Risk Committee for the 2011/12 year, the committee concludes overall that the internal controls evaluated during those audits were inadequate and partially effective, with particular attention being required in the areas referred to above.

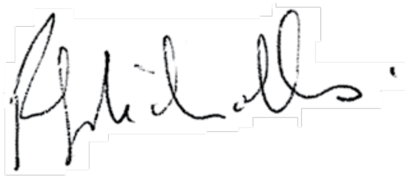
Quality of management reports

The Audit and Risk Committee is satisfied with the content and quality of the quarterly reports as prepared and issued by Management during the year under review in terms of the PFMA for both finance and performance.

Evaluation of the financial statements

The Audit and Risk Committee has:

- Reviewed and discussed with management and the AGSA the audited annual financial statements and the AGSA's qualified audit report, to be included in the annual report
- Reviewed the AGSA's management letter and management's responses thereto
- Reviewed the appropriateness of accounting policies and practices
- Reviewed significant adjustments, resulting from the annual audit.
- The Audit and Risk Committee has discussed, concurs with and accepts the conclusions of the AGSA on the annual financial statements read together with the Report of the AGSA, and recommends these to the Accounting Authority for acceptance and inclusion in the Annual Report.



RG Nicholls
Acting Chairperson of the Audit and Risk Committee

Report of the Accounting Authority

REPORT OF THE ACCOUNTING AUTHORITY

INTRODUCTION

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 under the NRCS Act 5 of 2008.

The NRCS is mainly responsible for the administration of three Acts that reside under its jurisdiction. These are the NRCS Act, Trade Metrology Act and National Building Regulations and Building Standards Act. Furthermore, the organisation administers regulations that fall under the jurisdiction of other government departments, as per agreement with the respective departments.

As a public entity, the NRCS is guided by Protocol on Good Corporate Governance as defined in the Public Finance Management Act (PFMA). In managing its activities, the organization strives to achieve transparency, accountability, efficiency and effective use of resources.

The NRCS Board as Controlling Body

The Board of Directors of the NRCS is appointed in terms of the National Regulator for Compulsory Specifications Act (NRCS Act).

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

Towards the end of the year, Mr Nico Vermeulen was appointed by the Minister of Trade and Industry to act as Chairperson of the Board.

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

Board meetings

Board Member	Number of meetings attended
Nico Vermeulen	12
Derick Block	10
Funzani Melato	11
Dora Ndaba	12
SE (Lillibeth) Moolman	12
Sipho Zikode	7
Sadhasivan Perumal	11
Moses Moeletsi	9

Technical committee

The Technical 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.

In brief, the Committee is responsible for the following:

- Considering and advising the Board on proposed compulsory specifications or proposed amendments to compulsory specifications in terms of section 13 of the 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 the Regulations published in terms of section 36 of the NRCS Act, which came into effect on 1 January 2011.
- Considering and advising the Board on technical and related matters as outlined in the Trade Metrology Act.

Four members of the Board serve on the Technical Committee. They are the Committee Chairperson, Mr N Vermeulen, Adv D Block, Ms F Melato and Ms SE Moolman.

The Technical Committee has met its obligations and has played a major role in the administration of non-compliant products and the destruction thereof.

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

Technical committee meetings

Board Member	Number of meetings attended
Nico Vermeulen	4
Derick Block	3
Funzani Melato	4
SE (Lillibeth) Moolman	4

Remuneration committee

The primary role of the Remuneration Committee is to assist the Board with regard to remuneration and human resources matters. Among other things, it recommends remuneration and HR related policies for approval by the Board.

Remco meetings

Board Member	Number of meetings attended
Derick Block	6
Funzani Melato- became member in March 2012	1
Dora Ndaba	7
SE (Lillibeth) Moolman	7
Sadhasivan Perumal	6

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 and
- 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, two independent members and one dti representative. The Board representatives are Ms D Ndaba, Mr N Vermeulen and Prof S Perumal. Mr Nick Nicholls is the Acting Chairperson of the Audit and Risk Committee. Mr Tshepo Mofokeng was appointed as an independent member of the Committee on 3 October 2011.

The Audit and Risk Committee held five meetings during the year. The attendance for the meetings was as follows:

Audit & risk committee meetings

Board Member	Number of meetings attended
Nico Vermeulen	3
Dora Ndaba	5
Sadhasivan Perumal	5
Moses Moeletsi	4
Tshepo Mofokeng	3
Nick Nicholls	5
Kumuran Naidoo	1

Other meetings

Board Member	Number of meetings attended
Nico Vermeulen	9
Derick Block	19
Funzani Melato	5
Dora Ndaba	19
SE (Lillibeth) Moolman	9
Sipho Zikode	
Sadhasivan Perumal	6
Moses Moeletsi	
Rowan Nicholls	2

Financial performance

Revenue, excluding government grants and interest, amounted to R158.4 m (2011: R130.6 m). Of this, R125 m (2011: R100.5 m) was received from industry through levy payments and R33.1 m (2011: R30.1 m) through other services. Grants received from **the dti** amounted to R37.1 m compared to R33 m in the previous year.

An amount of R2.9 m related to other income is disclosed, predominantly from the settlement agreement with the SABS, compared to the R18.2 m in 2011.

A surplus of R15.1 m (2011: R25.6 m) was realised during the 12 months ended 31 March 2012. Cash on hand at the end of the year amounted to R58.1 m in comparison with R 42.3 m in the previous year.

Events subsequent to the statement of financial position

The Board members are not aware of any matters or circumstance arising since the end of the financial year that will have a significant impact on the operations of the NRCS or its financial position.

Materiality framework

The NRCS, in accordance with the PFMA, has adopted and implemented a materiality framework.

Number of employees

End of March 2011 EE Demographics						
Age spread	Black	Coloured	Indian	White	Total	Age Spread
>27	7	1	1	0	9	3.1%
27 - 34	94	11	7	4	116	40.3%
35 - 46	57	20	3	14	94	32.6%
47 - 58	12	8	0	27	47	16.3%
59 - 67	1	1	0	20	22	7.6%

Demographic representation				
Black	Coloured	Indian	White	Women
171	41	11	65	107
59.4%	14.2%	3.8%	22.6%	37.2%

Risk management

The NRCS endeavours to minimise risk by ensuring that appropriate systems, policies and controls are in place within the organisation. The organisation conducted a risk assessment exercise in May 2011 to identify risks that hinder it from meeting its key objectives as outlined in the NRCS Strategic Plan. The organisation's top 20 risks were identified and managed.

The Audit and Risk Committee played a significant role in ensuring compliance with good corporate governance principles, aiding the Board in the management of NRCS Risks.

Internal audit

The NRCS considers compliance with applicable laws, regulations, codes and its own ethical standards and internal policies to be an integral part of its business culture. The Internal Audit Department facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

The Internal Audit Department, in accordance with the PFMA and the King III report, provides the Audit and Risk Committee and management with assurance that:

- Risk management processes are in place across the NRCS and are adequate
- All discrepancies uncovered within the NRCS fall within the tolerable error rates set by management and the Board
- All control weaknesses identified are rectified timeously by management
- Measures to safeguard NRCS assets are in place and are adequate and effective.

Fraud prevention

In terms of the PFMA and the requirements in the King III Report, the NRCS Board is responsible for ensuring that an integrated fraud prevention plan is implemented in order to minimise the risk and opportunity for fraud and irregularities. The Internal Audit Department is mandated to assist the NRCS by providing investigative services, through a fraud hotline manned by external service providers which support the NRCS strategic intent and business objectives.

Information communication technology

The Information Communication Technology (ICT) division is responsible for the provision of Information Technology Systems and support for the NRCS. The NRCS's primary considerations in managing the Information and Communication Technology (ICT) in the NRCS is its sustainability, its performance assurance and the ability of the Information and Systems Management component to execute the identified NRCS priorities. The NRCS has embarked on the implementation of a Customer Relations Management System (CRM) and an IT Infrastructure.

Development of a Customer Relations Management System (CRM) – Access Anywhere

The NRCS awarded a project for the implementation of a Customer Relationship Management System (CRM) which will completely transform its services to its customers. This will add mobility to key staff, the inspectors who will be able to access and conduct their duties remotely. It will also improve the dissemination of information. The new system will transform NRCS from a paper environment to digital processing and storage environment, making services accessible using web-based and mobile technology. The project is in its final stages of implementation.

This project will also see increased collaboration with other sister organizations and departments in realizing an integrated system for sharing information, especially SARS and its port of entry. This is in line with the strategic plan for locking out non-compliant commodities for a safer South Africa. The use of information technology to link data sources for business intelligence through collaboration will also assist with the inspection at source and/or manufacturer and also in country of origin. This project will be finalized during the first quarter of the 2012/13 financial year.

Implementation of an Information Communication Technology Infrastructure

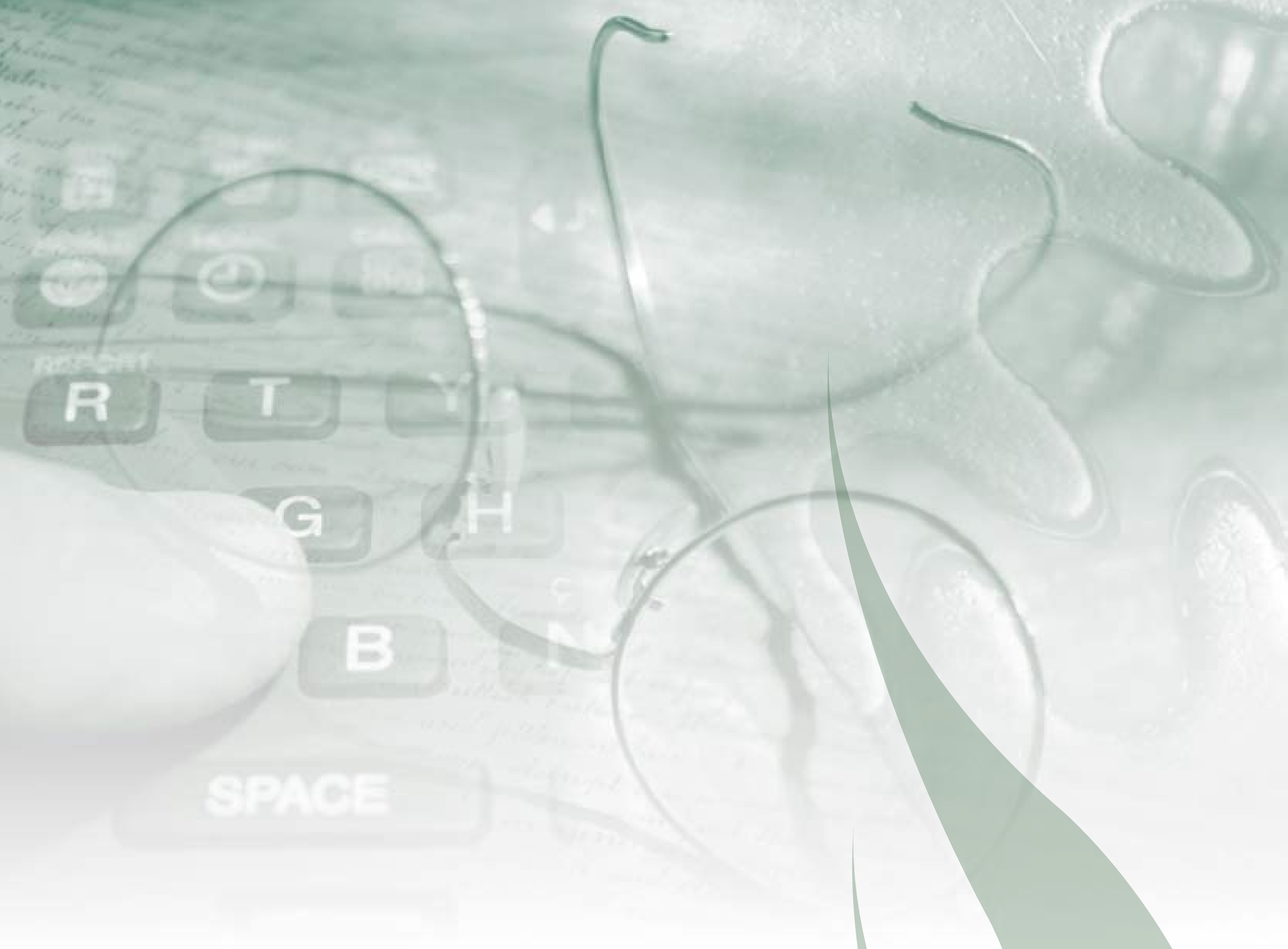
The NRCS is in the process of acquiring a new state of the art ICT infrastructure that will enable the provision of an efficient, stable and accessible environment from anywhere. This will ensure that the systems are secured and available at all times. This infrastructure will be hosted in a cloud which is the key enabler for accessibility for our staff and clients countrywide and worldwide. The ICT Infrastructure was designed to achieve interoperability and scalability to ensure easy provisioning of new services and communication with other systems. This project is in its final stages and will be finalized during the first quarter of the 2012/13 financial year.

Board approval

The Annual Financial Statements for the year ended 31 March 2012, set out from page 55 to page 98 have been approved by the Accounting Authority on the 31 July 2012 and signed on their behalf by:

Mr Nico Vermeulen
Acting Chairperson of the NRCS Board

Mr Katima Temba
Acting CEO of the NRCS



Performance Information Report

PERFORMANCE INFORMATION REPORT

PURPOSE:

The purpose of this report is to present performance information for the period 1 April 2011 to 31 March 2012 as required by the PFMA.

EXECUTIVE SUMMARY

The 2011/12 financial year was a challenging year for the organisation. The difficulties stemmed from labour disruptions experienced throughout the year and were further compounded by two strikes, that cumulatively lasted for approximately four weeks. Despite these challenges, the NRCS near achieved on almost all targets. Perishable Products Division and Legal Metrology Division managed to meet the target in terms of number of inspections conducted. Non-Perishables Division did not meet target, however when taking into account the effect of the four weeks industrial action, the variance is in line with the lost productivity.

Albeit the Corporate functions failing to fully meet their objectives, however their performance needs to be reviewed considering the labour disputes. Another reason for failure to meet the target is due to the lack of qualified and skilled human resources.

Strategic Goal 1: To maximise compliance with all specifications and technical regulations falling under the mandate of the NRCS

Expected Outcomes/	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Maximum Coverage	**Perishable Division** **Inspections conducted** in accordance with inspection strategy	Percentage of Inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation	100% of all production and consignments inspected for compliance to the minimum compulsory specification requirements	100% of all declared production and consignments inspected for compliance to the minimum compulsory specification requirements was achieved as follows: **Local produced products:** 100% of all canned fishery and meat products produced were inspected. Frozen products were inspected as per documented monitoring process No of inspections conducted: Canned Fish: 1,972 Canned Meat: 3,816 Frozen Fish: 973 **Imported products** 100% of all declared canned fish, meat and frozen fishery product consignments were inspected. No of inspections conducted: Canned Products: 6,552 Frozen Fish: 2,306 **Exported products** 100% of all requests received for export inspections and certificates for fish & fishery products and canned meat consignments were inspected No of inspections conducted: Frozen Fish: 4,517 Chilled Fish: 5,447 Live Products: 2,991 **Total number of product inspections: 28,574** **Factory Inspections:253** **Total number inspections: 28,827**	

Expected Outcomes/	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Maximum Coverage	**Non-Perishables Division** **Inspections conducted** in accordance with inspection strategy	Number of inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation	Chemicals Materials and Mechanicals 8,160 inspections conducted Automotive 7,560 inspections conducted Electro-technical 7,600 inspections conducted	CMM Number of inspections conducted 7288 (negative variance of 8.9%) Automotive Number of inspections conducted 5,408 (negative variance of 28.5%) Electro-technical Number of inspections conducted 6,419 (negative variance of 15.5%)	•A cumulative 4 weeks of industrial action by inspectors during Q1 and Q3 •The resignation of two inspectors in Automotive Department in Q2 and Q3 •The suspension of 3 three electro-technical inspectors •Involvement of a number of inspectors from all three departments on the Border Enforcement Pilot Project during Q3 and Q4.
Maximum Coverage	**Legal Metrology Division: Inspections conducted** in accordance with inspection strategy	Number of inspections conducted in accordance with the technical regulations, divisional procedures and applicable legislation	Legal Metrology: 5,438 inspections conducted	Legal Metrology: Number of inspections conducted 5,621 (positive variance of 3.3%)	

Expected Outcomes/	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Ensure common understand-ing in the application of the Building Regulations by the indus-try and local authorities	Effective & efficient administration of Building Regulations enquiries with regards to the interpretation and application of the Building Regulations	% of requests investigated and recommended to the board	100% of all Review Board cases requests, investigated and recommended to the Review Board within 60 days	77.8% of all Review Board case requests investigated and recommended to the review Board within 60days. (7 out of 9 recommended to the Review Board). Two further cases were not recommended to the Review Board Total number of cases submitted to the review Board was 11	Delay was due to the request for further documentation as was required for the case 1 case was withdrawn by the Applicant 1 Case was not recommended because it was found not be within the jurisdiction of the Review Board

Expected Outcomes/	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Finalise and publish Informative research	Actively conduct **research** & successfully publish NRCS research papers	Number of research papers published	2 research papers published	Research papers were not produced however three impact assessments were conducted	3 Regulatory Impact Assessments conducted for the following Compulsory Specifications: a) Regulatory impact assessment for the amendment of VC 8087 for plastics bags b) Regulatory impact assessment for the implementation of a proposed new technical regulation for solar water heaters c) Regulatory impact assessment for the implementation of a proposed new technical regulation for hot water storage tanks for domestic use Project concluded: Final report: Investigation into the introduction of a technical regulatory mark by the NRCS
Prosecute non compliances in accordance with NRCS Act	Establish special investigations unit and conduct special investigations	% number of cases investigated in accordance with investigation strategy	50% of cases investigated	No cases investigated	Unit not properly resourced.

Strategic Goal 2: To extend the scope of the NRCS regulatory activity to increase the protection of South African citizens

Expected Outcomes	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Build a **regulatory framework** that is sustainable and that protects South African citizens	Finalise new compulsory specifications/ technical regulations and amend compulsory specifications as per IPAP and other market requirements	Number of compulsory specifications / technical regulations approved by the NRCS Board	11 compulsory specifications/ technical regulations approved by the Board	2 Compulsory Specifications approved by the Board.	8 Compulsory Specifications approved internally by Executive Management.

Strategic Goal 3: To inform and educate stakeholders, industry & consumers regarding obligations of the NRCS with respect to specifications and technical regulations

Expected Outcomes	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Increase consumer and industry awareness	Enhance consumer and industry awareness	% increase in the awareness score as per the benchmark survey	5% increase in the benchmark survey score	Benchmark survey was not conducted	a) Quotations received were greater than the budgeted amount for the survey b) Survey to be combined with the reputational model in the new financial year
Enhance consumer education	Issue alerts for non-compliances, confiscation and product recalls	% of alerts issued for non-compliant products, confiscation and product recalls	100% of all confiscations and product recalls covered	100% alerts on non-compliances, confiscated products and recalls were issued	
NRCS recognised as an effective regulator by stakeholders	Finalise Reputational Model and implement reputation model.	Reputational model approved by the NRCS Board and % implementation of reputational model implemented	Develop reputational model and conduct a survey for the benchmark	a) Reputational model not developed b) Benchmark survey was not conducted	a) No quotations were received from prospective service providers.

Strategic Goal 4: To implement a Risk Based Approach to regulation that informs all regulatory activity

Expected Outcomes	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Effective and efficient inspections and resource utilisation	Approved Risk Based strategy and implementa-tion of the Risk Based Strategy	Approval of risk based strategy and % implementation of the strategy	Board Approval of the Risk Based Strategy	Risk Based Approach strategy was not approved however the project plan was approved by the Board	Lack of human resources

Strategic Goal 5: To ensure the 'right people are in the right place at the right time' to enable effective execution of the NRCS strategy

Expected Outcomes	Measurable Objective	Performance Indicator / Measure	2011 / 2012 Target	Actual Performance	Reason for Variance
Appropriate Organisation-al structure; Competent and motivated staff	Approval of the NRCS organisational structure by the Board and imple-mentation of the Human Resources Strategy	Approval of the organisational structure; % implementation of the organisational structure	Organisational structure ap-proved by Board;	Organisational Structure was approved by the Board.	Structure has not been implemented because of objections.
		% implementation HR strategy	50% implementation of HR Strategy	25% Implementation of the HR Strategy	Job Grading and Profiling not completed – the process was not completed due to the structure being placed on hold. Only critical positions were identified, profiled and graded. Review of policies – This process is underway. A service provider was appointed to assist in reviewing of policies. HR and IT have initiated the tender process for the payroll system and the Integrated, online HR system

Report of the Auditor–General

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE NATIONAL REGULATOR FOR COMPULSORY SPECIFICATIONS

Report on the financial statements

1. I have audited the financial statements of the National Regulator for Compulsory Specifications (NRCS) set out on pages 55 to 98, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

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

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

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

Basis for qualified opinion

Revenue from services rendered from exchange transactions

6. National Regulator for Compulsory Specifications did not accrue for revenue from service rendered from the exchange transactions due to them as required by Standards of Generally Recognised Accounting Practice, GRAP 9 *Revenue from exchange transactions.* The National Regulator for Compulsory Specifications did not have an adequate system for identifying and recognising all revenue from services rendered from exchange transactions and there were no alternative procedures that I could perform to obtain reasonable assurance that all revenue from services rendered from exchange transactions had been properly recorded. Consequently, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of revenue from services from exchange transactions of R33,1 million as stated in note 2 to the financial statement.

Property, plant and equipment

7. The National Regulator for Compulsory Specifications did not review the useful lives of

assets at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Assets with a gross carrying amount of R6,3 million are included in the financial statements at a zero net carrying amount whilst still being in use. I have not determined the correct net carrying amount of property, plant and equipment as National Regulator for Compulsory Specifications did not indicate the conditions of the assets on the asset register. I was unable to confirm or verify by alternative means the value of property, plant and equipment included in the financial statements at R7,7 million. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of property, plant and equipment.

8. Furthermore, closing balance of property, plant and equipment as disclosed in note 10 to the financial statement and the fixed asset register differs with an amount of R1,3 million. There were no alternative procedures that I could perform to obtain reasonable assurance that property, plant and equipment had been properly recorded.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the NRCS as at 31 March 2012 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 30 to the financial statements, the corresponding figures for 31 March 2011 have been restated as a result of an error discovered during 2012 in the financial statements of the NRCS at, and for the year ended, 31 March 2012.

Report on other legal and regulatory requirements

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the report on predetermined objectives of NRCS for the year ended 31 March 2012 as set out on pages 43 to 48 of the annual report.

14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI).*

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts.

15. The material findings are as follows concerning the usefulness and reliability of the information.

Usefulness of information

Performance indicators not well defined

16. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 33% of the indicators relevant to following goal, *to maximise compliance with all the specifications and technical regulations falling under the mandate of National Regulator for Compulsory Specifications* were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was mainly due to the fact that targets were not suitably developed during the strategic planning process.

Performance targets not specific

17. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 33% of the targets

relevant to following two goals, *to maximise compliance with all the specifications and technical regulations falling under the mandate of National Regulator for Compulsory Specifications* were not specific in clearly identifying the nature and the required level of performance. This was mainly due to the fact that targets were not suitably developed during the strategic planning process

Reliability of information

Reported performance not valid, accurate and complete

18. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable. A total of 67% of the actual reported performance relevant to the two goals, *to maximise compliance with all the specifications and technical regulations falling under the mandate of National Regulator for Compulsory Specifications* was not valid, accurate and complete when compared to and from the source information and evidence provided. This was due to a lack of monitoring and review for the recording of actual achievements by senior management.

Additional matter

19. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

20. Of the total number of 15 planned targets, only 3 targets were achieved during the year under review. This represents 80% of total planned targets that were not achieved during the year under review. This was mainly due to the lack of resources.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the NRCS has complied with applicable law and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

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

Expenditure management

23. The accounting authority did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.

Asset management

24. Proper control systems to safeguard and maintain assets were not implemented, as required by sections 50(1)(a) and 51(1)(c) of the PFMA.

Procurement and contract management

25. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.

26. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive, as required by Treasury Regulations 16A6.1.

27. Quotations were awarded to suppliers who did not submit a declaration of past supply chain practices such as fraud, abuse of SCM system and non-performance, which is prescribed in order to comply with Treasury regulation 16A9.1.

28. Quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations.

29. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and Treasury Regulations 16A6.3(b).

30. Quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

31. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, which is prescribed in order to comply with Treasury regulation 16A8.3.

32. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements due to the information not being available.

Internal control

33. I considered internal control relevant to my audit of the financial statements, the report on predetermined objectives and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

34. The leadership did not exercise adequate oversight responsibility regarding financial and predetermined objective reporting and compliance with laws and regulations.

Financial and performance management

35. Inadequate monitoring by supervisors resulted in material misstatements in the financial statements, predetermined objective reporting, and non-compliance with laws and regulations.

Other reports

Investigations

36. An investigation was conducted by an independent consulting firm on request of the Department of Trade and Industry. The investigation was initiated based on the allegation in to financial misconduct and to establish whether the correct procurement and approval processes were followed. Certain allegations were confirmed and legal and or disciplinary steps will be taken against officials.

Auditor General.

Pretoria

31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annual Financial Statements 2011/2012

Annual Financial Statement

STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 31 March 2012

	Notes	2012 R	2011 R
Revenue	2	**158,498,743**	**130,564,104**
Levies for compulsory specifications (Non exchange transactions)		**125,384,427**	100,490,917
Services rendered from exchange transactions		**33,114,316**	30,073,187
Other income from non exchange transactions	3	**2,858,108**	**18,234,349**
		161,356,851	148,798,453
Less: Other operating expenditure			
Expenditure		**(185,656,487)**	**(156,864,385)**
Advertising and marketing expenditure		(2,319,556)	(1,285,131)
Amortisation of intangible assets	11	(792,696)	(790,064)
Contract services	4	(11,727,293)	(8,743,651)
Depreciation	10, 12	(1,359,950)	(3,116,313)
Employee benefit expenditure	5	(128,148,654)	(106,825,672)
Office rentals and other operating lease expenses	6	(10,825,032)	(11,310,639)
Tests and sampling		(5,259,602)	(5,557,872)
Travel expenditure		(9,157,397)	(7,494,031)
Other expenditure	7	(16,066,307)	(11,741,012)
Operating deficit before government grants and core funding		**(24,299,636)**	**(8,065,932)**
Government grants and core funding non exchange transactions	25.5	37,173,000	33,042,000
Operating surplus for the year		**12,873,364**	**24,976,068**
Interest received	8	2,423,814	1,021,336
Finance cost	9	(154,035)	(360,418)
Surplus for the year	29	**15,143,143**	**25,636,986**

Annual Financial Statement

STATEMENT OF FINANCIAL POSITION
For the year ended 31 March 2012

	Notes	2012 R	2011 R
Assets			
Non-current assets		**19,999,062**	**18,150,487**
Property, plant and equipment	10	7,716,833	6,994,557
Intangible assets	11	4,137,074	2,844,676
Investment property	12	7,820,313	7,986,412
Deposits	13	324,842	324,842
Current assets		**67,576,492**	**57,528,955**
Trade and other receivables from exchange transactions	15	9,442,605	15,214,647
Cash and cash equivalents	16	58,133,887	42,314,308
Total assets		**87,575,554**	**75,679,442**
Liabilities			
Non-current liabilities		**16,706,624**	**14,444,274**
Interest bearing borrowings	17	116,439	107,274
Employment benefit obligations	18	16,590,185	14,337,000
Current liabilities		**22,492,030**	**28,001,411**
Trade and other payables from exchange transactions	20	16,680,576	21,259,848
Interest bearing borrowings	17	140,361	1,593,563
Employment benefit obligations	18	1,361,170	1,148,000
Provision	21	4,309,923	4,000,000
Total liabilities		**39,198,654**	**42,445,685**
Net assets		**48,376,900**	**33,233,757**
Represented by:			
Accumulated surpluses		**48,376,900**	**33,233,757**

Annual Financial Statement

STATEMENT OF CHANGES IN NET ASSETS
For the year ended 31 March 2012

	Accumulated surplus R
Opening balance at 1 April 2010	**7,596,771**
Surplus for the year	25,636,986
Accumulated surplus at 31 March 2011	**33,233,757**
Surplus for the year	15,143,143
Accumulated surplus at 31 March 2012	**48,376,900**

Annual Financial Statement

CASH FLOW STATEMENT
For the year ended 31 March 2012

	Notes	2012 R	2011 R
Cash flows from operating activities		**(15,688,779)**	**(21,591,584)**
Cash received from customers		162,917,962	121,520,051
Cash paid to suppliers and employees		(180,876,521)	(143,772,553)
Cash generated from operations	22	(17,958,558)	(22,252,502)
Interest received		2,423,814	1,021,336
Finance cost		(154,035)	(360,418)
Cash flows from investing activities		**(4,220,606)**	**(3,070,670)**
Purchase of property, plant and equipment	10	(2,135,512)	(715,086)
Purchase of intangible assets	11	(2,085,094)	(2,352,742)
Operating lease deposits paid	13	—	(2,842)
Cash flows from financing activities		**(1,444,036)**	**(1,682,802)**
Repayment of interest bearing borrowings		(1,444,036)	(1,682,802)
Net decrease in cash and cash equivalents before external funding		**(21,353,421)**	**(26,345,056)**
Cash received from government		37,173,000	33,042,000
Cash received with operations transferred from SABS	25.1	—	5,000,000
Net increase in cash and cash equivalents		**15,819,579**	**11,696,944**
Cash and cash equivalents at beginning of the period		42,314,308	30,617,364
Cash and cash equivalents at the end of the period	16	**58,133,887**	**42,314,308**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

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 Standards 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 year, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy. The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

Accrual basis

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

Going concern

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

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.

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 is also affected with the determination of the fair value of certain assets on initial recognition.

The entity re-assesses the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment management considers the condition and use of the individual assets, to determine the remaining period over which the asset can and will be used.

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
The entity assesses its loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be reported in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. Provision for impairment is done at amortised cost.

Employee benefit obligations
The present value of the post retirement obligation depends on a number of factors that are determined on a actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of the obligation. The BESA yield curve was used to discount the liability. 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. Other key assumptions for employee benefits are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate and deferred settlements terms
The entity use the prime interest rate to discount future cash flows. Appropriate adjustments have been made to compensate for the effect of deferred settlements terms that materially impact on the fair value of financial instruments , revenue and expenses at initial recognition. The adjustment requires a degree of estimation around the discount rates and periods used.

Significant accounting policies (continued)
Basis of presentation (continued)

Useful lives and residual values

The entity re-assesses the useful lives and residual values of property, plant and equipment on an annual basis and in doing so considers the condition and use of the individual assets to determine the remaining period over which the asset will be used.

Contingent liabilities

Management considers the existence of possible obligations which may arise from legal action as well as the possible non-compliance of the requirements of completion of guarantees. The estimation of the amounts disclosed is based on the expected possible outflows of economic benefits should there be a present obligation.

Impairment testing

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggests that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

1.2 Provisions

Provisions are recognised when:
The entity has a present obligation as a result of a past event;
It is probable that an outflow of resources embodying benefits or service potential will be required to settle the obligation; and
A reliable estimate can be made of the obligation.
The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

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

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Significant accounting policies (continued)

1.3 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.

1.4 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. The entity prescribes to a defined contribution plan for pension 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. Contributions to defined contribution plans are recognised in surplus or deficit as they accrue.

Post employment medical benefits are provided on a defined benefit plan for certain employees as disclosed in Note 18.

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

The entity provides long service leave award to employees who joined the entity before 1 March 2008 as stated in Note 18.

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.

Significant accounting policies (continued)

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.

Short-term employee benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowance, medical and other contributions, are recognised during the period in which the employee renders the related services.

The short-term portion of the long-term benefits is recognised and provided for at the statement of financial position date, based on actuarial valuation value.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for this benefit. The entity recognises termination benefits when the employment of the employee has been terminated

1.5 Property, plant and equipment

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

Property, plant and equipment are initially recognised as assets on acquisition date at cost. Property, plant and equipment acquired for no consideration are initially recognised at fair value. Items of property, plant and equipment are subsequently measured 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. Items of property, plant and equipment are recognised when it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the item can be measured reliably.

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

Significant accounting policies (continued)

The estimated useful lives of the assets are reassessed annually, with any changes in such accounting estimates being adjusted in the financial year of reassessment and applied retrospectively. 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.

Transitional provisions

For property, plant and equipment that were acquired at no cost, or acquired for a nominal cost, the cost is the property, plant and equipment's fair value as at the date of adoption of the transitional 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.

1.6 Intangible assets

An asset is identified as an intangible asset when:

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

Intangible assets are recognised when:

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

Intangible assets are initially recognised on acquisition date at cost. Intangible assets acquired for no consideration are initially recognised at fair value. Intangible assets are subsequently measured 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 and the cost can be measured reliably. All other subsequent expenditure is expensed as incurred.

Significant accounting policies (continued)

The useful lives of intangible assets are assessed annually 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 starts when the asset is ready for it's intended use and ceases when the asset is derecognised. Amortisation methods and periods are assessed annually. The estimated useful lives are as follows:

Computer software	3 years

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
It is technically feasible to complete the asset so that it will be available for use or sale; There is an intention to complete and use or sell it;
There is an ability to use or sell it;
It will generate probable future economic benefits or service potential;
There are available technical, financial and other resources to complete the development and the use of the assets, and
The expenditure attributable to the asset during its development can be measured reliably.

The assets' amortisation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The carrying amount of an item or part of an intangible asset 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 intangible asset are included in the statement of financial performance.

1.7 Investment property

Investment property is property (land and buildings) held to earn rentals or for capital appreciation or both, rather than for: Use in the production or supply of goods or services or for
Administrative purposes, or Sale in the ordinary course of operations. Land is carried at cost and is not depreciated.
Investment properties are initially recognised as assets on acquisition date at cost and when acquired for no consideration are initially recognised at fair value. Investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Investment properties are recognised when it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the item can be measured reliably.

The carrying amount of an item or part of an investment property 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 investment property is included in the statement of financial performance.

Significant accounting policies (continued)

Depreciation is charged on straight line basis over the estimated useful lives of the investment property. Useful life is the period of time over which the asset is expected to be used. Depreciation starts when the asset is available for use and ceases when the asset is derecognised. The estimated useful lives are as follows:

Land	not depreciated
Building	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.8 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.

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.

1.9 Related parties

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

Significant accounting policies (continued)

Key management is defined as being individuals with the authority and responsibility for strategy planning and directing and controlling the activities of the entity. NRCS regards all individuals at executive levels as key management.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.10 Financial instruments

Financial instruments or their components or parts, on initial recognition are classified as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. 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 and non exchange transactions
Deposits and trade and other receivables from exchange and non 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.

Deposits and Trade and other receivables are classified as loans and receivables.
Trade receivables are measured at amortised cost using the effective interest rate method. Effective interest rate method is a method of calculating the amortised cost of a financial asset or a liability and allocating the interest income or expense over the relevant period.

Amortised cost is the amount at which trade receivables are measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment or uncollectability.

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.

Trade and other payables and borrowings are classified as financial liabilities at amortised cost.

Significant accounting policies (continued)
Financial instruments (continued)

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

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

Financial liabilities
Financial liabilities or parts thereof are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged or 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.

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

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

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 or 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.

Significant accounting policies (continued)

Impairment of financial assets

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

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

1.11 Leases - 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.

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.

1.12 Revenue recognition

Revenue from exchange transactions

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. 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.

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

Significant accounting policies (continued)

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.

Revenue from non-exchange transactions
Revenue from levies is recognised upon the earliest receipt of the completed production levy return or cash. Companies produce and complete a levy return of their production, which is invoiced by NRCS.

Revenue arising from services non-exchange transactions is recognised when the entity has the contractual right to receive revenue and 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.

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.

1.13 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.

1.14 Transfer of functions from related party

Assets and liabilities are initially recognised at fair value resulting in the accounting of net assets transferred, including contingent liabilities. The net assets are accounted for as a surplus in the statement of financial performance. Where assets were transferred and no historical costs were available, the fair values were determined at the reporting date and recognised in the annual financial statements.

1.15 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.

Significant accounting policies (continued)

1.16 Commitments

Commitments other than lease commitments represent goods and services that have been approved and/or contracted, but where no delivery has taken place at the reporting date. Commitments, whether as a liability or as expenditure in the statement of financial performance, but are indicated in the current or capital nature, are not recognised in the statement of financial position disclosure notes to the financial statements.

1.17 Statements of GRAP issued, but changes 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 additional standards of GRAP are as follows:

Effective date		
GRAP18	Segment Reporting	None announced
GRAP21	Impairment of non-cash-generating assets	1 April 2012
GRAP23	Revenue from Non-exchange Transactions (Taxes and Transfers)	1 April 2012
GRAP24	Presentation of Budget Information in Financial Statements	1 April 2012
GRAP25	Employee Benefits	None announced
GRAP26	Impairment of cash-generating assets	1 April 2012
GRAP103	Heritage Assets	1 April 2012
GRAP104	Financial Instruments	1 April 2012
GRAP105	Transfer of functions between entities under common control	None announced
GRAP106	Transfer of functions between entities not under common control	None announced
GRAP107	Mergers	None announced

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

2. Revenue

	2012 R	2011 R
Revenue from levies (Non exchange transactions)	125,384,427	100,490,917
Revenue from services rendered (Exchange transactions)	33,114,316	30,073,187
Tests and services	7,335,088	6,564,597
Export certification	5,091,561	4,818,978
Vehicle homologation	6,303,547	5,273,272
Letter of authority (LOA)	11,286,002	10,558,371
Transport annual registration fee, VIN etc.	1,789,681	1,517,640
Electrical compliance certificate	836,101	982,600
Gaming: Letter of compliance	472,336	357,729
	158,498,743	**130,564,104**

3. Other income from non-exchange transactions

	2012 R	2011 R
Surplus with property, plant and equipment recognised at fair value (transitional provisions: Directive 2)	—	52,763
Surplus on the capitalisation of full depreciated property, plant and equipment transferred from SABS	—	—
Surplus on transfer from SABS (note 25.1)	2,447,051	17,894,102
- Fair value of assets transferred	—	13,000,000
- Fair value of non-exchange revenue	2,447,051	4,894,102
Other	410,072	284,513
Realised net foreign exchange profit	985	2,971
	2,858,108	**18,234,349**

The comparative amount for other income was disclosed for 2012 for more detail presentation.

4. Contract services

	2012 R	2011 R
Contract services comprises:	11,727,293	8,743,651
- Risk management and levy audits	2,019,143	1,389,296
- IT Services	5,026,770	4,758,844
- Accreditation	118,299	268,502
-Other contractual services	4,563,081	2,327,009

Annual Financial Statement

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

	2012 R	2011 R
5. Employee benefit expenditure		
Salaries and wages	96,868,382	82,894,091
Medical aid and other employment benefits	5,676,134	5,278,438
Pension costs	7,318,826	6,607,367
Training costs	2,572,719	1,281,574
Non Executive emoluments (note 25.4)	811,094	653,384
Executive board and other key management emoluments (note25.4)	12,435,144	8,428,976
	125,682,299	105,143,830
Post-employment healthcare benefits (note 18)	929,543	762,549
Long service leave awards (note 18)	1,536,812	919,293
	128,148,654	**106,825,672**
6. Office rentals and other operating lease expenses		
Rentals in respect of operating leases (minimum lease payments)	10,825,032	11,310,639
- Land and buildings	9,818,846	10,951,138
- Vehicles	174,975	194,226
- Equipment	831,210	165,275

Annual Financial Statement

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

	2012 R	2011 R
7. Other expenditure		
Included in other expenditure is the following:		
Auditors' remuneration - current year	731,695	1,152,607
Auditors' remuneration - prior year	669,386	701,250
Bad debts	1,316,393	903,094
- Bad debts written-off	36,430	229,416
- Provision for impairment	1,279,963	673,678
Legal costs	1,962,859	2,728,437
Loss on property, plant and equipment due to theft	—	17,167
Loss on derecognition of property, plant and equipment	—	7,848
8. Interest received		
Cash equivalents - financial assets at amortised cost	2,423,814	1,021,336
	2,423,814	**1,021,336**
9. Finance cost		
Other finance cost	—	1,295
Finance lease charges	154,035	359,123
	154,035	**360,418**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

10. Property, plant and equipment

	ASSETS WORK IN PROGRESS	Furniture and office equipment	Laboratory equipment	Operating lease improve-ments	Vehicles	Total
	R	R	R	R	R	R
2012						
Opening carrying amount	—	4,093,269	2,559,733	220,394	121,160	6,994,556
Gross carrying amount	—	9,061,326	3,947,806	396,492	203,459	13,609,083
Accumulated depreciation	—	(4,968,057)	(1,388,073)	(176,098)	(82,299)	(6,614,527)
Additions	442,010	1,153,819	329,745	—	209,937	2,135,511
Depreciation	—	(594,606)	(442,427)	(67,747)	(89,070)	(1,193,850)
Derecognised at carrying amounts	—	(88,579)	(130,805)	—	—	(219,384)
Property, plant and equipment recognised at fair value (transitional provisions: Directive 2 of GRAP 17)	—	—	—	—	—	—
Closing carrying amount	**442,010**	**4,563,903**	**2,316,246**	**152,647**	**242,027**	**7,716,833**
Gross carrying amount	442,010	8,903,872	4,007,311	396,492	413,396	14,163,081
Accumulated depreciation	—	(4,339,969)	(1,691,064)	(243,845)	(171,370)	(6,446,249)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

	Furniture and office equipment	Laboratory equipment	Operating lease improve-ments	Vehicles	Total
	R	R	R	R	R
2011					
Opening carrying amount	6,162,349	2,700,082	218,298	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)
Additions	475,468	277,823	75,583	—	828,873
Depreciation	(2,564,896)	(425,572)	(73,487)	(38,770)	(3,102,725)
Derecognised at carrying amounts	(25,015)	—	—	—	(25,015)
Property, plant and equipment recognised at fair value (transitional provisions: Directive 2 of GRAP 17)	45,363	7,400	—	—	52,763
Assets work in progress comprise assets that have been paid for, but still under construction.					
Closing carrying amount	**4,093,269**	**2,559,733**	**220,394**	**121,160**	**6,994,557**
Gross carrying amount	9,061,326	3,947,806	396,492	203,459	13,609,084)
Accumulated depreciation	(4,968,057)	(1,388,073)	(176,098)	(82,299)	(6,614,527)

Property, plant and equipment with a gross carrying amount of R1 734 171 (2011: R5 950) were fully depreciated, but still in use on 31 March 2012.

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

Assets leased under finance leases
Furniture and office equipment

	2012 R	2011 R
Opening carrying amount	1,389,169	2,904,368
Correction in opening balance	—	11,998
Additions	164,958	113,790
Depreciation	(1,309,743)	(1,640,987)
Closing carrying amount	**244,384**	**1,389,169**

The carrying amount of assets under finance leases is pledged as security for its related liabilities.
Finance lease contract for computers and printers ended in February 2012. The computers have been purchased and are included in the asset register at their carrying amount
Details of the finance lease obligations are disclosed in note 17

11. Intangible assets

	2012 R	2011 R
Computer software - purchased		
Opening carrying amount	2,844,676	1,281,998
Gross carrying amount	4,722,933	2,370,192
Accumulated amortisation	(1,878,257)	(1,088,194)
Additions	2,085,094	2,352,742
Amortisation	(792,696)	(790,064)
Closing carrying amount	**4,137,074**	**2,844,676**
Gross carrying amount	6,808,027	4,722,933
Accumulated amortisation	(2,670,953)	(1,878,257)

At year end an amount of R3 453 525 was capitalised for the development of Customer Relations Management solution (internally developed Intangible asset) which was not amortised. The project will be completed in 2012. The total outstanding amount to complete the development for the software is R1 100 784.

12. Investment property

	2012 R	2011 R
Carrying amount at the beginning of period	**7,986,412**	—
Additions resulting from transfer from SABS at fair value		8,000,000
Devaluation	—	—
Depreciation	(166,099)	(13,588)
Carrying amount at end of the year	**7,820,313**	**7,986,412**

Investment property comprises of land situated at Erf 2901 Mount Road, in the municipality of Port Elizabeth, with an office building thereon. The investment property was transferred to the NRCS as per the agreement reached with the SABS (Note 25.1). The property will be leased out to SABS (Related Party). Negotiations for an operating lease contract are currently underway.
The fair value of the investment property is the carrying value as at 31 March 2012. Valuation obtained by Goosen & De Villiers valuers, the independent valuers who are the members of the Institute of SA Institute of valuers and hold the National Diploma in Property Valuations. The valuers have recent experience in the location and category of the investment property being valued. The valuation was done on 31 March 2012.

The fair value of the investment property was determined based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. The fair value was R7 600 000.

13. Deposits

	2012 R	2011 R
Operating leases	312,000	312,000
Card Fleet Service	10,000	10,000
Municipalities	2,842	2,842
	324,842	**324,842**

Deposits are for property held under an operating lease, Card Fleet Services and for municipality services and are accounted for at cost.

14. Financial assets by category

	2012 R	2011 R
Loans and receivables	9,442,605	15,214,647
Trade and other receivables	58,133,887	42,314,308
Cash and cash equivalents	**67,576,492**	**57,528,955**

15. Trade and other receivables from exchange transactions

	2012 R	2011 R
Trade receivables	11,064,283	16,094,405
Less: Adjustment to fair value on initial recognition	(411,305)	(360,594)
Trade receivables at amortised cost	10,652,978	15,733,811
Less: Impairment of trade receivables	(1,503,023)	(739,216)
	9,149,955	14,994,595
Other receivables	292,650	220,052
	9,442,605	**15,214,647**

NRCS does not hold any collateral as security. Trade and other receivables is carried at fair value.

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

	2012 R	2011 R
Impairment of trade and other receivables from exchange transactions:		
Opening balance	739,216	575,148
Amounts received during the period	(151,378)	(277,682)
Amounts utilised - written off as bad debts	(364,778)	(233,092)
Increase in impairment provision	1,279,963	674,842
Closing balance	**1,503,023**	**739,216**

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 2012, the age analysis of trade receivables is as follows:

		Not past due or impaired	Past due but not impaired			
	Total R	Current R	> 30 days R	> 60 days R	>90 days R	>120 days R
2012	11,064,283	5,370,442	3,350,441	274,412	102,494	1,966,496
%	100%	49%	30%	2%	1%	18%
2011	11,064,285	6,890,270	1,892,332	286,653	5,548,132	* 1,477,018
%	100%	52%	15%	8%	1%	24%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

16 Cash and cash equivalents

	2012 R	2011 R
Cash and cash equivalents comprise of the following:		
Reserve bank - Corporation for Public Deposits	46,726,035	—
Bank balances	11,392,045	42,298,547
Cash on hand	15,807	15,761
Cash and cash equivalents as per cash flow statement	**58,133,887**	**42,314,308**

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

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

The carrying amount of investment approximates its fair value. Cash and cash equivalent further include cash on hand

17. Interest bearing borrowings

	2012 R	2011 R
Finance lease liabilities - office equipment	256,800	1,700,837
Less: Current portion	(140,361)	(1,593,563)
Non-current portion	**116,439**	**107,274**

The finance lease liabilities for office equipment bear interest at a rate between 13% and 15,5% (2011: 11,0% and 15,5%). The liabilities are repayable in total monthly instalments of R179 679 (2011: R168 633) each. Lease periods vary between 1 and 36 months.

Finance leases comprise:

	2012 R	2011 R
Total future minimum finance lease payments	296,500	1,835,202
- Payable not later than 1 year	167,615	1,716,200
- Payable between 1 year and not later than 5 years	128,885	119,002
Less: Unpaid future finance charges	(39,700)	(134,428)
Present value of future minimum finance lease payments	256,800	1,700,774
- Payable not later than 1 year	140,361	1,593,563
- Payable between 1 year and not later than 5 years	116,439	107,210

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 R 222 384 (2011: R 1 389 170).

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.

18. Employment benefit obligations

	Opening balance	Provision made	Benefits paid/ released	Closing balance	Current portion	Total non-current
2012	**R**	**R**	**R**	**R**	**R**	**R**
Post-employment healthcare	7,060,000	1,022 790	(93,247)	7,989,543	(102,032)	7,887,511
Long service leave awards	8,425,000	2,579,812	(1,043,000)	9,961,812	(1,259,138)	8,702,674
	15,485,000	**3,602,602**	**(1,136,247)**	**17,951,355**	**(1,361,170)**	**16,590,185**

	Opening balance	Provision made	Benefits paid/ released	Closing balance	Current portion	Total non-current
2011	**R**	**R**	**R**	**R**		**R**
Post-employment healthcare	6,297,452	836,272	(73,723)	7,060,000	(105,000)	6,955,000
Long service leave awards	7,505,707	1,818,293	(899,000)	8,425,000	(1,043,000)	7,382,000
	13,803,159	**2,654,565**	**(972,723)**	**15,485,000**	**(1,148,000)**	**14,337,000**

Post-employment healthcare benefit obligation

Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2012.

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 2012 were in the range of 5.67% per annum to 9.01% per annum (2011: 6.01% per annum to 9.21% per annum) with an average of 8.23% per annum (2011: 8.76% per annum) and a 20 year yield of 8.82% per annum (2011: 9.18% per annum). Yields on index linked government bonds are in the region of 2.0%. When compared to the yield on nominal government bonds this implies an inflation of approximately 6.5% (2011: 6.4%). 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 R7 989 543 (2011: R7 060 000) per the valuation performed during March 2012.

	2012 R	2011 R
Present value of funded obligations	7,989,543	7,060,000
Net liability per statement of financial position		
The amount recognised in the statement of financial performance is determined as follows:		
Current service cost	210,000	204,000
Interest cost	637,790	582,272
Actuarial (profit) / loss	175,000	50,000
Less: benefits paid	(93,247)	(73,723)
	929,543	**762,549**

Sensitivity analysis

Below the effects on the central basis liability results for 2012 when the medical aid inflation rate is increased and decreased by 1% :

Changes to medical inflation	Liability R	Change in liability
+1%	9,350,395	17,0%
Central	7,989,543	0,0%
-1%	6,879,399	-13,9%

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):		2012	2011
Discount rate per annum	BESA curve	8,50%	9,00%
Salary inflation	CPIX +1%	7,00%	7,00%

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 R9 961 812 (2011: R8 425 000) per the valuation performed during March 2012.

18. Employment benefit obligations continued)

	2012 R	2011 R
Present value of funded obligations	7,989,543	8,425,000
Net liability per statement of financial position	7,989,543	8,425,000
The amount recognised in the statement of financial performance is determined as follows:		
Current service cost	961,000	917,000
Interest cost	710,812	617,293
Actuarial (profit) / loss	908,000	284,000
Less: benefits paid	(1,043,000)	(899,000)
	1,536,812	919,293

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 R	Change in liability %
+1%	9,353,107	17,1%
Central	7,989,543	0,0%
-1%	10,647,390	33,3%

19. Financial liabilities by category

Loans and payables

	2012 R	2011 R
Trade and other payables	16,680,576	21,259,848
Interest bearing borrowings (Finance lease obligation)	256,800	1,700,837
	16,937,376	**22,960,685**

20. Trade and other payables from exchange transactions

	2012 R	2011 R
Trade payables	4,339,797	9,097,854
Other payables	85,881	900,111
Salary related accruals	801,426	903,329
Accumulated leave accrual	8,269,164	7,292,110
Trade receivables with credit balances and income received in advance	847,914	1,152,683
Deferred operating lease accrual - current portion	2,336,394	1,913,761
	16,680,576	**21,259,848**

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.

Trade receivable in credit balances refers to the debtors whose accounts were in credit at reporting date due to credit notes that were issued and not utilised or overpayments received.

21. Provisions

	2012 R	2011 R
Balance as at the beginning of the year	4,309,923	—
Amount utilised in the current year	(4,309,923)	—
Provision raised during the year	4,309,923	4,000,000
Balance as at the end of the year	**4,309,923**	**4,000,000**

The provision relates to the performance bonus for the 2011/2012 financial period. The bonus will be paid in October 2012. The amount will be confirmed following performance assessment process.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2012

22. Notes to the cash flow statement

Reconciliation of net surplus to cash generated from operations

	2012 R	2011 R
Operating surplus / (deficit) for the period before government grants and core funding	**(24,299,638)**	**(8,065,931)**
Adjustments for non-cash items :	**6,464,533**	**(6,543,101)**
Surplus on transfer of functions from SABS	(2,447,051)	(17,894,102)
Fair value building rented from SABS	2,447,051	4,894,102
Depreciation on property, plant and equipment	1,193,851	3,102,725
Amortisation of intangible assets	792,696	790,064
Depreciation on Investment property	166,667	7,763
Bad debts written off	36,430	229,416
Settlement discount	(168)	(841)
Loss on property, plant and equipment due to theft	204,251	17,167
Loss on derecognition of property, plant and equipment	15,133	7,848
Fair value adjustment Investment property	(568)	—
Profit on the capitalisation of full depreciated property, plant and equipment transferred from SABS	0	(52,763)
Property, plant and equipment recognised at fair value (transitional provisions: Directive 2)	—	2,654,565
Provision for employment benefit obligations	3,602,602	(972,723)
Employment benefits paid from provision	(1,136,247)	673,678
Increase in provision for bonus	309,923	—
Increase in impairment of trade receivables	1,279,963	—
Operating surplus before working capital changes	**(17,835,105)**	**(14,603,207)**
Changes in working capital	**(123,454)**	**(7,649,295)**
Decrease / (Increase) in trade and other receivables	4,455,649	(8,814,637)
(Decrease) / Increase in trade and other payables	(4,579,103)	1,165,342
(Decrease) / Increase in income received in advance	—	—
Cash flows from operating activities before government grants and core funding	**(17,958,559)**	**(22,252,502)**

23. Commitments

Capital commitments

	2012 R	2011 R
Commitments for the acquisition of property, plant and equipment and Intangible assets (contracted)	17,122,881	3,226,939
Commitments for operating expenditure at year end	1,402,599	

Operating lease commitments - the company as lessee

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

	2012 R	2011 R
Buildings		
- Payable within one year	3,887,262	3,947,831
- Payable between one and five years	17,996,862	18,510,176
- Payable after five years	6,694,585	6,651,372

None of the lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. The entity does not have the option to purchase any property. Escalation clauses 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 SABS of which the transaction was not at arms length (refer note 25.1)

24. Financial risk management

24.1 Foreign currency risk management

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

Forward exchange contracts - recognised transactions

No forward exchange contracts were entered into during the financial years ended 31 March 2012 and 31 March 2011.

24.2 Interest rate risk management

	Floating rate 2012 R	Floating rate 2011 R
Cash and cash equivalents	58,133,887	42,314,308
% of total bank balances	100%	100%

If interest rates on 31 March 2012 had been 100 basis points (1%) lower (and all other variables remained constant), the surplus for the period would have been R581 334 (2011: R422 985) 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 R581 334 (2011: R422 985) lower.

If interest rates on 31 March 2012 had been 100 basis points (1%) higher (and all other variables remained constant), the surplus for the period would have been R581 334 (2011: R422 985) 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 R581 335 (2011: R422 985) higher.

24.3 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:

2012	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
Financial liabilities					
Trade and other payables	(85,881)	(5,187,713)	(5,056,354)	(10,660,551)	(20,990,499)
Interest bearing borrowings	(28,623)	(47,262)	(64,476)	(116,439)	(256,800)

24.3 Liquidity risk management (continued)

2011	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
Financial liabilities					
Trade and other payables	2,599,273	1,339,747	13,175,867	8,144,961	25,259,848
Interest bearing borrowings	(132,797)	(265,593)	(1,195,173)	(107,274)	(1,700,837)

The data for this analysis is determined from internal reports presented to key management personnel. It is based on information that is managed internally on the entity's financial management system.

24.4 Credit risk management

Potential concentrations of credit risk consist mainly of cash and cash equivalents and trade receivables.
The NRCS limits its counterparty exposures from its bank accounts by only dealing with well-established financial institutions of high quality credit standing. The credit exposure to any one counterparty is managed by monitoring transactions.

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 2012, 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.

24.5 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 2012 and 31 March 2011 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.

25. Related party transactions

25.1 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 50% rental of the premises, parking bay's for the executives at no cost.

Future impact of the settlement is the rental of the property at 50% of the rental cost for a further 2 years ending on 31 March 2014. The parking bays will be charged at a nominal rate up to 31 March 2014.

The details of settlement transaction impact on financial statements is detailed below

	Notes	2012 R	2011 R
Assets transferred at fair value		—	13,000,000
Cash & cash equivalent		—	5,000,000
Investment property	12	—	8,000,000
Fair value of non-exchange transaction		2,447,051	4,894,102
Nett assets transferred		2,447,051	17,894,102

25. Related party transactions (continued)

25.2 Purchases from related parties

2012	Purchases R	debt R	off R	outstanding R
National government business enterprises				
SA Bureau of Standards (SABS)	14,021,278	—	—	1,103,788
2011				
National government business enterprises				
SA Bureau of Standards (SABS)	9,107,995	—	—	2,517,714

25.3 Sales to related parties

2012	Sales R	debt R	off R	outstanding R
Major public entities				
SA Bureau of Standards (SABS)	32,132	—	—	20,200
2011				
SA Bureau of Standards (SABS)	50,484	—	—	11,990

Levies and other receipts to the value of R153 702 (2011: R317 000) were collected and paid by SABS to the NRCS.

25. Related party transactions (continued)

25.4 Key management personnel compensation

The following emoluments were paid to the Board Members:

2012	Notes	Fees as Board and Committee member R	Other services (Travel claim) R	Total R
Non-Executive: Board Members				
Adv. DJ Block (Acting Chairperson)	1	187,571	8,497	196,068 [1]
S Maziya (Chairperson)	2	—	—	—
FA Melato		73,968	4,094	78,062
SE Moolman		96,732	903	97,635
DN Ndaba		131,539	10,401	141,940
Prof. S Perumal		94,484	20	94,504
NMW Vermeulen (Acting Chairperson)	3	77,968	4,319	82,287
S Zikode		—	—	—
		662,262	**28,234**	**690,496**
Non-Executive: Audit Committee Members				
TM Mofokeng	4	27,300	567	27,867
RG Nichols		91,834	897	92,731
K Naidoo		—	—	—
		119,134	**1,464**	**120,598**
Total non-executive remuneration		**781,396**	**29,698**	**811,094**

1. Relieved from acting Chairperson: 31 January 2012
2. Resignation: 4 March 2011.
3. Appointed Acting Chairperson: 01 February 2012
4. Appointment: 3 October 2011

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25. Related party transactions (continued)

2011	Notes	Fees as Board and Committee member R	Other services (Travel claim) R	Total R
Non-Executive: Board Members				
Adv. DJ Block	1	100,860	5,695	106,555
S Maziya (Chairperson)	1	60,826	1,343	62,169
FA Melato	1	66,377	3,884	70,261
SE Moolman	1	60,987	526	61,513
DN Ndaba	1	89,985	7,358	97,343
Prof. S Perumal	1	81,460	—	81,460
NMW Vermeulen	1	52,607	4,508	57,115
S Zikode	1	—	—	—
		513,102	**23,314**	**536,416**
Non-Executive: Audit Committee Members				
V Magan	2	—	—	—
RG Nicholis	2	116,442	526	116,968
		116,442	**526**	**116,968**
Total non-executive remuneration		**629,544**	**23,840**	**653,384**

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

NOTES TO THE FINANCIAL STATEMENTS
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25. Related party transactions (continued)

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

2012	Notes	Basic salary R	Per- formance payments R	Retirement & medical aid R	Other allowances R	Total R
Executive: Board Member						
M Moeletsi - CEO	2	1,216,450	158,957	173,827	27,555	1,576,789
Executive: Management						
WM vd Merwe - CFO		639,993	140,510	—	104,021	884,524 [1]
SH Carstens		732,970	90,566	141,741	31,624	996,901
A Hirachund		650,267	85,332	109,919	60,931	906,449
MT Madzivhe		662,854	80,461	103,248	59,162	905,725
P Mazibuko		747,187	86,956	76,974	33,989	945,106
MJ Young		613,466	99,819	146,720	73,060	933,065
F le R Fourie		676,180	90,203	147,981	64,166	978,530
M Marneweck	1	547,168	63,872	48,414	82,837	742,291
MS Mkhabela		568,195	64,411	40,984	101,272	774,862
CM Ndlovu	1	636,495	77,342	83,108	122,435	919,380
K Temba	2	533,811	63,208	76,671	113,234	786,924
J Marneweck		97,780	7,194	—	—	104,974
B Khanyile		847,923	—	119,701	12,000	979,624
Total executive remuneration		**9,170,739**	**1,101,637**	**1,276,482**	**886,286**	**12,435,144**

1. Acting Executives from 1 September 2010

3. Moses Moeletsi on special leave from 31 January 2012, K Temba has been appointed acting CEO

2011	Notes R	Basic salary R	Bonus / performance payments R	Retirement & medical aid R	Other allowances R	Total R
Executive: Board Member						
M Moeletsi - CEO		1,005,801	129,980	160,208	174,263	1,470,253
Executive: Management						
WM vd Merwe - CFO		938,732	78,619	—	13,374	1,030,725
SH Carstens		670,556	48,012	134,276	16,850	869,694 [1]
A Hirachund		675,189	46,522	92,526	9,152	823,389
MT Madzivhe	2	255,929	46,522	38,042	17,453	357,946
P Mazibuko	2	261,375	47,272	31,459	22,255	362,360
MJ Young		649,077	46,905	118,439	18,591	833,012
F le R Fourie		633,759	48,168	136,353	21,925	840,205
Marneweck M	1	309,694	—	25,110	43,456	378,260
Mkhabela MS		508,578	24,698	34,527	53,252	621,055
Ndlovu CM	1	359,586	—	45,824	48,801	454,211
Temba K	1	301,135	—	42,798	43,934	387,867
B Khanyile	3	—	—	—	—	—
Total executive remuneration		**6,569,411**	**516,698**	**859,562**	**483,306**	**8,428,976**

1. Acting Executives from 1 September 2010
2. Not Executives from 31 August 2010
3. Not considered as key management due to suspension

25.5 Government grants and core funding

	2012 R	2011 R
Received from Department of Trade and Industry	37,173,000	33,042,000

26. Contingent liabilities

The SABS provided guarantees to AVIS for employees that were transferred to the NRCS on 1 September 2008. At 31 March 2012 9 employees (2011: 14) are active in the above scheme with an outstanding amount of R361 393 (2011: R865 517). The NRCS did not adopt the scheme.

Section 53(3) of the PFMA states that a public entity may not accumulate surpluses unless prior written approval of the National Treasury has been obtained. National Treasury granted its approval for the accumulated surplus for two previous financial years to be retained. Application to retain 2010/11 surpluses has been submitted to Treasury, approval is still pending. The retention of current year surplus has not been approved.

27. Fruitless and wasteful expenditure

27.1 Fruitless and wasteful expenditure for the period

	2012 R	2011 R
Consist of charges for managers not attending training, duplicate services requested from various suppliers and Interest on late payments during the period under review.	424,470	1,515

27.2 Losses through criminal conduct

	2012 R	2011 R
Computer equipment stolen derecognised at carrying value. Individual lap top computers stolen to be the subject of insurance claims.	34,317	17,167

28. Irregular expense

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. Contract payments originating in the 2008/2009 financial year did not comply with the above procedures to the value of R22 883 728 (2011: R2 368 200). 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.

	2012 R	2011 R
Opening balance	8,499,036	6,130,836
Add irregular expenditure	22,883,728	2,368,200
Less amounts condoned		—
- Less amounts not recoverable(not condoned)		—
- Irregular expenditure awaiting condonation	**31,382,764**	**8,499,036**
Analysis of expenditure awaiting condonation		
Current year	22,883,728	6,130,836
Prior years	8,499,036	2,368,200
Total	**31,382,764**	**8,499,036**

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 was adopted from the SABS and changes affected over a period of time.

29. Budget compared to the statement of financial performance

	Notes	2012 R Actual	2012 R Budget
Revenue		**158,498,743**	**131,503,310**
Levies for compulsory specifications	28.1	**125,384,427**	**100,255,500**
Services rendered	28.1	**33,114,316**	**31,247,810**
Other income	28.3	**2,858,108**	**8,198,218**
		161,356,851	139,701,528
Expenditure		**(185,656,487)**	**(177,566,528)**
Advertising and marketing expenditure		(2,319,556)	(2,351,983)
Amortisation of intangible assets	28.4	(792,696)	(772,800)
Contract services	28.9	(11,727,293)	(10,443,018)
Depreciation	28.4	(1,359,950)	(3,244,418)
Employee benefit expenditure	28.8	(128,148,662)	(120,552,588)
Office rentals and other operating lease expenses		(10,825,032)	(13,913,643)
Tests and sampling		(5,259,602)	(6,619,207)
Travel expenditure	28.7	(9,157,397)	(8,169,207)
Other expenditure	28.5	(16,066,307)	(11,499,664)
Operating (deficit) before government grants and core funding		**(24,299,636)**	**(37,865,000)**
Government grants and core funding	28.2	37,173,000	37,173,000
Operating surplus for the period		**12,873,364**	**(692,000)**
Interest received	28.6	2,423,814	—
Finance cost	28.5	(154,035)	692,000
Surplus for the period		**15,143,143**	—

Budget exceeding actual amounts - material variances disclosed

29.1 The levy revenue stream exceeded budget as a result of the higher production figures received from industry which can be attributed to the recovery in the economy. The services revenue is below the budget due to exports that have declined mainly due to exchange rates and EU markets that are not performing well due to the continuing Euro zone crisis. FAI is operating at a loss before allocation of corporate costs.

29.2 Government Grants were in line with the budget

29.3 This included special reviews as well as amounts paid to levy auditors in respect of 2011 levy audits that could only be paid in 2012 based on the contract.

29.4 Depreciation was less than budget due to the reduction of capital expenditure as well as the delay in the implementation of the CRM system. CRM system is not yet available for use and as such we have not started amortising it.

29.5 Other expenses were below budget due to underspend on training, stationery and marketing expenses, where management made a deliberate decision to save costs due to the negative financial position for the NRCS.

29.6 Interest revenue is above budget due to an investment account that was opened at the Reserve bank. The interest revenue was not budgeted for.

29.7 Staff and travel cost is above budget due to increase in the rate to accommodate inflation and increase in fuel.

29.8 Employee expenditure was above budget due to a settlement agreement and the tool of trade resolution at the CCMA

29.9 Resignations of key positions in the organisation as well as required reviews and investigations within NRCS, contract services exceeded the budget

Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance

Net surplus/deficit per the statement of financial performance	15,143,141
Adjusted for:	
Fair value adjustments	(568)
Impairments recognised / reversed	1,279,963
Surplus / deficit on the sale of assets	—
Increases / decreases in provisions	309,923
Under expenditure	(16,732,459)
Net surplus/deficit per approved budget	—

30. Prior period error

The error relates to the correction in respect of depreciation of the investment property that was incorrectly calculated. The comparative amounts have been appropriately adjusted. The effect of the correction of this error on the results of 2011 is as follows.

	2012 R	2011 R
Increase in expenses	—	5,825,00
Decrease in profit	—	(5,825,00)
Decrease in non-current assets	—	(5,825,00)
Decrease in reserves	—	5,825,00
This error related to provision for bonus was incorrectly recognised as an accrual in the prior period. This was retrospectively corrected in the current period.		
Decrease in accruals	—	4,000,000
Increase in provision	—	(4,309,923)

31. Events after reporting date

There were no reportable adjusting and non adjusting events that occurred after reporting date.

32. approval of financial statements

The audited annual financial statements were approved by the NRCS Accounting Authority and submitted for audit on 29 May 2012.

List of Acronyms and Abbreviations

Afrimets	Intra African Metrology System
CDP	Competency Development Programme
CIML	Steering committee of the OIML
CIPRO	Companies and Intellectual Property Registration Office
CMM	Chemical, Mechanical and Materials
COMESA	Common Market for Eastern and Southern Africa
COTII	Council of Trade and Industry Institutions
CCMA	Commission for Conciliation Mediation and Arbitration
DAFF	Department of Agriculture, Forestry and Fisheries
dti	Department of Trade and Industry
EAC	East African Community
EU	European Union
EXCO	Executive Committee
FAI	Food and Associated Industry Division of the NRCS
FLAG	Food Legislation Advisory Group
HR	Human Resources
IEC	International Electrotechnical Commission
IPAP	Industrial Policy Action Plan
IR	Industrial Relations
ISO	International Standards Organisation
ITAC	International Trade Administration Commission of South Africa
KPA	Key performance area
KPI	Key performance indicator
LOA	Letter of authority
LOC	Letter of certification
LPG	Liquid petroleum gas
MAC	Metrology Advisory Committee
MoU	Memorandum of Understanding
NBR	National Building Regulations
NBRBS	National Building Regulations and Building Standards Act
NEDLAC	National Economic Development and Labour Council
NEHAWU	National Education Health and Allied Workers Union
NPPD	Non-Perishable Products Division
NRCS	National Regulator for Compulsory Specifications
OECD	Organisation for Economic Cooperation and Development
OIML	International Organisation of Legal Metrology
PAC	Project Approvals Committee
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

SADCMEL	SADC Cooperation in Legal Metrology
SAIAT	SA Institute of Architectural Technologists
SANAS	South African National Accreditation System
SANS	South African National Specification
SAPS	South Africa Police Service
SARS	South African Revenue Services
SLA	Service level agreement
SQAM	Standards, Quality, Accreditation and Metrology
TBT	Technical Barriers to Trade
TC	Technical Committee
TRC	Technical Regulation Cooperation
WP	Working party
WTO	World Trade Organisation
WTO TBT	World Trade Organisation Agreement on Technical Barriers to Trade
WTO SPS	World Trade Organisation Agreement on Sanitary and Phytosanitary Barriers to Trade