

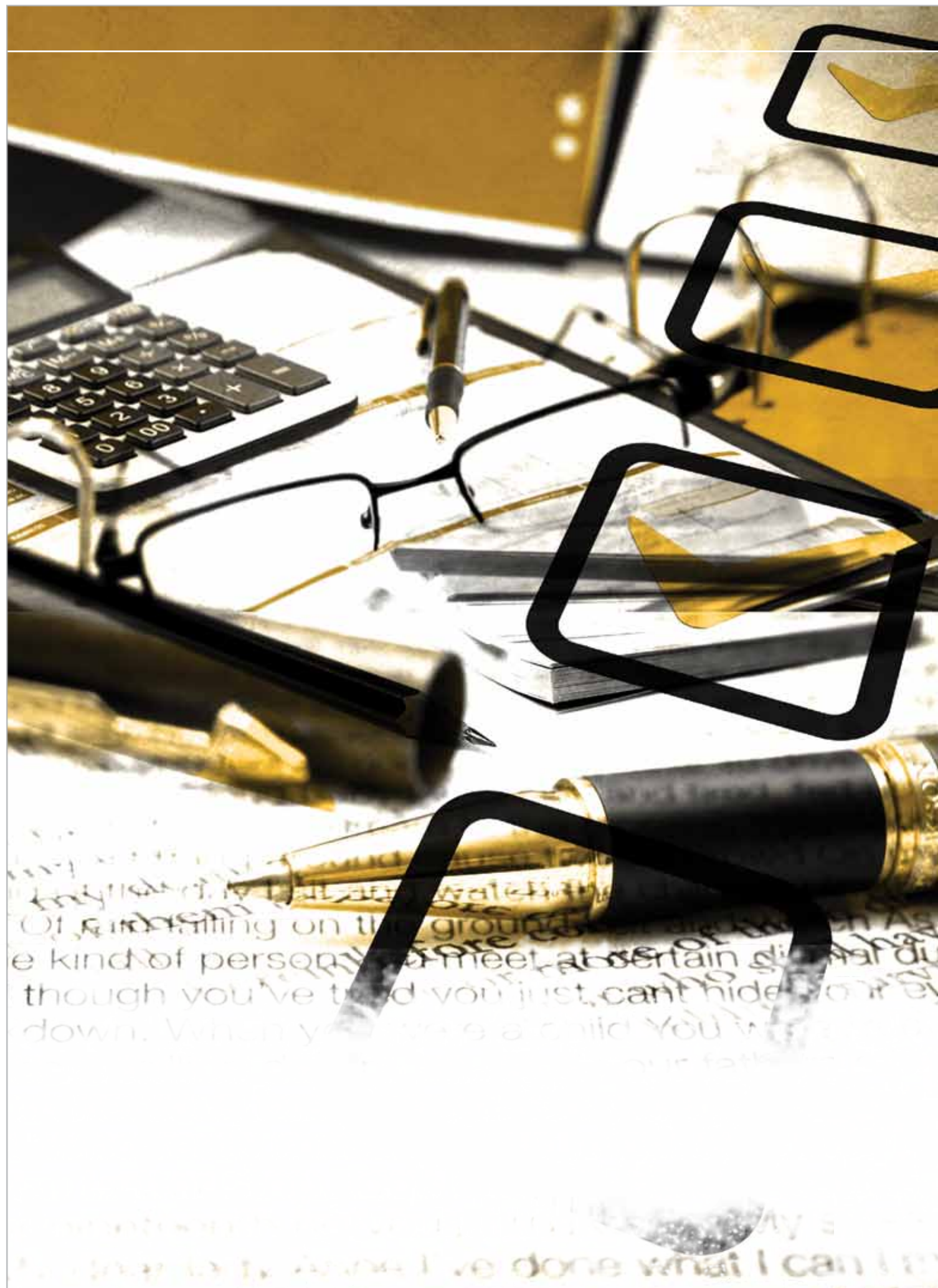
2010-2011 | ANNUAL REPORT



national regulator for
compulsory specifications

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Overview

OVERVIEW

BUSINESS

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 under NRCS Act No. 5 of 2008. The organisation is fully operational and is funded by means of fees collected from industry which constitutes 75% of the income, while the other 25% is acquired by means of a Government grant. The fees are calculated on a cost-recovery basis as a fixed value per item manufactured/imported or service provided. The core funding received from Government is mainly used for the administration of regulations under the Trade Metrology Act.

The NRCS is primarily responsible for the administration of three Acts that reside under its jurisdiction. These are the NRCS Act, the Trade Metrology Act and the National Building Regulations and Building Standards Act. In addition, the organisation administers regulations that fall under the jurisdiction of other government departments, as agreed with these departments.

The NRCS structure is primarily based on five industry clusters. Four industry groupings are relatively homogeneous and one is a collective of a diverse group of industries. This results in a structure that contains the following functional divisions and departments:

- Legal Metrology division responsible for regulations that fall under the Trade Metrology Act.
- The Regulatory Research and Development (RR&D) division responsible for the development and updating of compulsory specifications and technical regulations and related research.
- The Perishable Products, Food and Associated Industries (FAI) division responsible for the administration and enforcement of compulsory specifications for canned and frozen fish, fishery products and canned meat.
- The Non Perishable Products division (NPPD) which consists of three market departments and a special investigations unit:

- Automotive department responsible for the regulation of compulsory specifications applicable to motor vehicles and certain replacement components and accessories of motor vehicles.
- Chemical, Mechanical and Materials (CMM) department, responsible for the regulation of a diverse range of products including cement, paraffin stoves, respirators and other personal protective equipment.
- Electrotechnical department responsible for regulating compulsory specifications dealing with electrical products.

NRCS VISION

The vision of the NRCS is to foster public safety, health and environmental protection.

NRCS MISSION

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

LEGISLATIVE FRAMEWORKS

The legal frameworks under which the NRCS performs work 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)





Report of the Acting Chairperson

REPORT OF THE ACTING CHAIRPERSON



Advocate Derick Block
Acting Chairperson

Consumer protection has come a long way in our democratic South Africa. As a nation with one of the most progressive constitutions and acknowledgement of human rights in the world, it is only fitting that the rights of our citizens as consumers are advocated and protected with equal zeal. Legislation plays a massive role but it is the implementation of that legislation which truly affects the consumer - concrete actions and relevant policies upheld with vigorous action.

The Department of Trade and Industry (**the dti**), to which the NRCS reports, has developed policy and action planning frameworks such as the South African Trade Policy and Strategy Framework and the Industrial Policy Action Plan (IPAP) for just this purpose. IPAP in particular is an annual performance plan that is significantly aligned to the work of the NRCS and **the dti**'s other constituent organisations and agencies to ensure that delivery meets government's goals and objectives and impacts directly on the quality of life of South Africa's citizens.

The NRCS has a range of deliverables in terms of IPAP (now revised to IPAP2) for the 2010/11 to 2012/13 financial years which will guide the strategic planning and actions of the Regulator. These include improving its technical infrastructure to allow for greater integration of technology and an improved service to consumers. To this end, the NRCS strategic plans for 2010-13 and 2011-14 financial years were approved. These plans have been crafted to ensure optimum use of resources to assist **the dti** to reach its strategic objectives and the goals of IPAP2.

Continued improvement and the identification of gaps in regulation are necessary to ensure consumer protection in an ever-changing global market. Every year, the NRCS identifies the need for new technical requirements and compulsory specifications in carrying out its mandate in terms of the NRCS Act. In the year under review, eight new and amended compulsory specifications were approved

by the Board to better protect South African citizens and promote fair trade.

Much of the NRCS's work involves monitoring goods that are imported into South Africa. To assist the Regulator in becoming more efficient and effective by regulating these goods at source, a Memorandum of Understanding has been concluded between South African Revenue Service (SARS) and NRCS. It is envisaged that the MOU will improve the regulatory efficiency of the NRCS by allowing an easier flow of information between the Regulator and SARS.

The NRCS operates in a highly technical environment. In-depth knowledge and understanding of risk management, measurement standards and the technical requirements of a host of products are part of the intellectual capital of the officials of the Regulator and the other regulatory bodies with which it works on a daily basis. That is why during the course of the year under review, the Board finalised the appointment of individuals to serve on the Advisory Forum to give advice on technical matters that are presented to the Board.

The NRCS Regulations came into force on 1 January 2011. Among others, the regulations deal with issues such as the payment of levies, sales permits, directives and the registration of manufacturers, importers, builders of products and providers of services subject to compulsory specifications. The roll-out of registration of manufacturers in particular has begun at a good pace, with the process being made as user-friendly and smooth

as possible through the use of online registration on a dedicated portal on the NRCS website. More information on role-players through the registration process and the efficient enforcement of the new regulations should not only make the organisation more effective, but should allow for the collection of additional income for the Regulator to use in enacting its mandate.

In the year under review, there were a few highlights worth mentioning in this report. The first was the visit by the Board to the USA for a fact-finding and benchmarking exercise. On this visit, Board members met with senior members of regulatory bodies in the USA to learn from them and their processes. Issues touched upon included funding, enforcement of legislation and compliance, training and equipping of inspectors and identification of non-compliant products. NRCS officials also undertook similar visits to the BRICS countries, India and Brazil, both nations with whom South African trade is growing.

Another highlight in terms of international relations was the renewal of the Technical Cooperation Agreement with the Thailand Department of Fisheries.

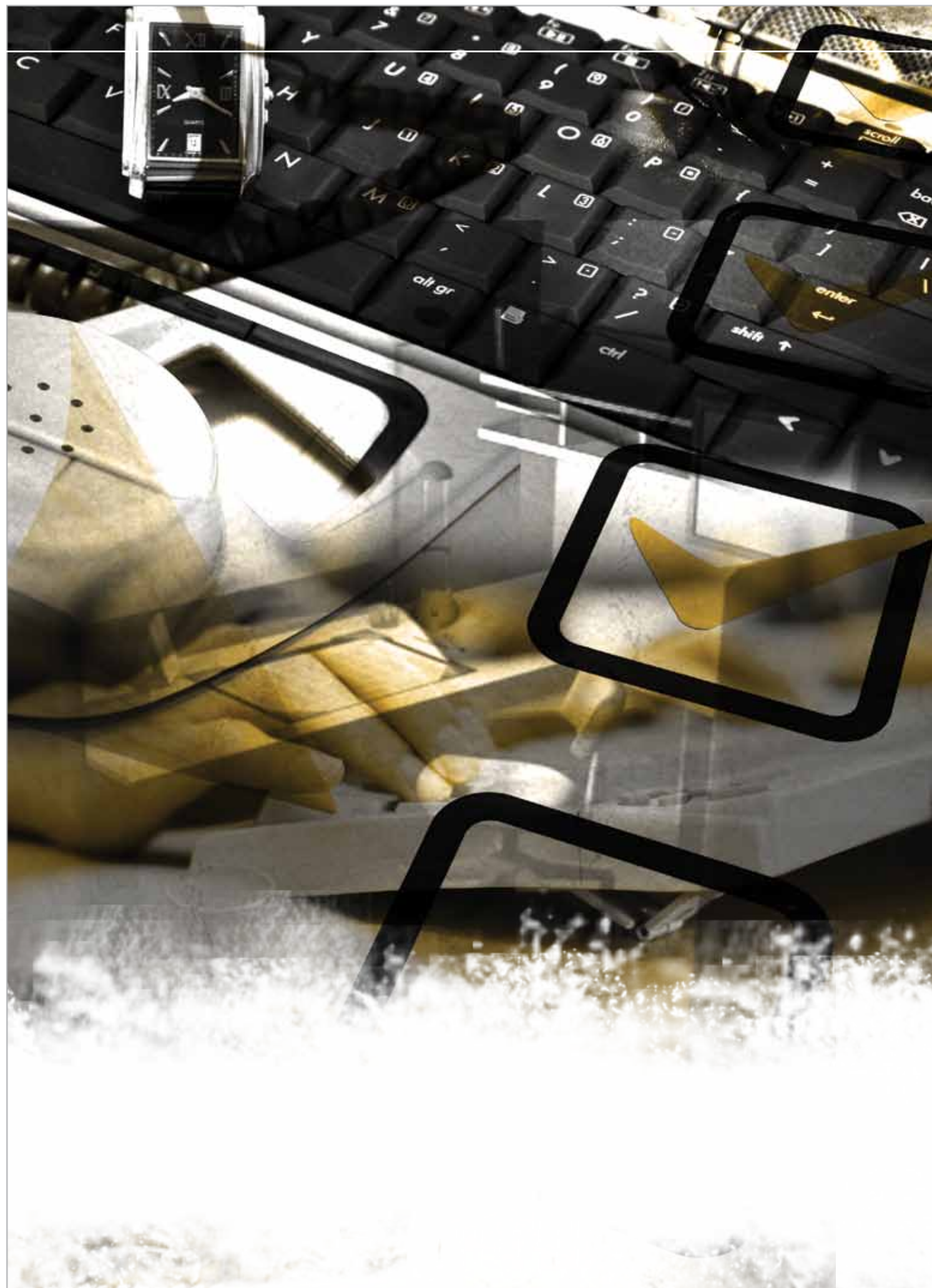
The NRCS continues its proud tradition of quality and best practice. During the 2010/11 year, the Regulator not only

maintained but increased the scope of accreditation of its inspection and calibration functions in terms of ISO 17020 and ISO 17025. All our divisions represent national interests in the international forums relevant to their fields. Regular opportunities for presentations and input in the international standard setting arena as well as the recent international awarding of the NRCS as technical expert bear testimony to the high esteem with which the Regulator's expertise is held regionally and internationally. I commend each one of our dedicated staff and congratulate those who achieved special acknowledgements this year.

I also wish to thank my fellow Board members for their on-going dedication and commitment. The various members continue to bring much-needed expertise and experience in critical areas and I am privileged to serve alongside each one of them.

To the CEO and his Exco, I extend my thanks and appreciation for a job well done and encourage them to reach even greater strides in the coming year in pursuit of quality and safety for South African consumers.

Advocate Derick Block
Acting Chairperson of the NRCS Board



Report of the Chief Executive Officer

REPORT OF THE CHIEF EXECUTIVE OFFICER



Mr Moses Moeletsi
Chief Executive Officer

The 2010/11 financial year at the National Regulator for Compulsory Specifications was characterised, like many South African institutions, by highs and lows as the euphoric atmosphere of Africa's first World Cup was followed by the realities of an economic downswing resulting in financial pressures. But as the organisation entered its third year as an independent regulator, it is safe to say that the NRCS has come a long way in reaching its goal of becoming a "nationally, regionally and internationally recognised, respected and preferred regulatory agency".

Once again the efforts of the NRCS were focused on the primary objective of protecting the South African consumer through the constant managing and updating of the specifications that govern consumer goods and tireless monitoring of the marketplace to ensure that manufacturers, importers and retailers adhere to these specifications. Where goods or products failed to comply with the minimum requirements, corrective action was taken resulting in the confiscation of many potentially harmful goods and holding accountable those responsible. In the year under review, despite numerous challenges, performance across the NRCS on the whole exceeded expectations and every division recorded highlights worth mentioning.

Across the organisation, 57 572 inspections were carried out, exceeding the target of 52 940 by 8,75%. The total value of goods confiscated and destroyed amounted to R6 million. The true value of these confiscations could justifiably be set far higher, as they protected individuals from potential harm or illness which, in addition to pain and suffering, could have held major financial implications for both citizens and the country's economy. Among others, the NRCS destroyed or rejected fish and fishery products and canned meat products with an estimated value of R21 million.

The constant research and development pertaining to compulsory specifications is essential to ensure that regulations keep pace with an ever-evolving marketplace.

In the year under review, the NRCS was responsible for the development and subsequent submission of eight new and amended Compulsory Specifications and Technical Regulations to **the dti**. These specifications will add to the ever-growing list of quality controls that protect our consumers.

The critical role of the NRCS in ensuring that consumers are not short measured was advanced in this year. Unfortunately it appears that short measuring is still alive and well in South Africa, despite the increasing presence of the NRCS Legal Metrology team. Legal Metrology inspects products and measuring equipment to ensure that products are in fact sold in the exact amounts that are declared on the packaging. In 2010/11, an estimated R148,9 million of goods not compliant in terms of legal metrology was confiscated, a massive increase from the R37,1 million in 2009/10.

In all, the NRCS issued a total of 14 188 embargoes against non-compliant products and rejected 678 measuring instruments. Furthermore, prosecutions were instituted against 90 businesses.

The NRCS once again placed high priority on its role of providing specialist advice to **the dti** and other national role-players. To this end, the Regulator was involved in no fewer than 13 IPAP2 projects in the year under review, spanning a number of specialised fields. One of these is a process of

reviewing the Trade Metrology Act in order to create a Legal Metrology Act, which will better align the Regulator with current needs in the South African marketplace. This project is currently in the policy and discussion phase.

The other IPAP2 projects are prominent in other areas of the regulatory activity, including the co-operation with the South African Revenue Services (SARS). A memorandum of understanding was concluded between NRCS and SARS to allow the flow of information that will enhance the efficiency of both organisations.

Significant work was also done in the area of energy and water efficiency that will impact positively in the built environment and support other government imperatives in this regard. The need to intervene in the electrical fixed installations in buildings has been a long overdue project, and this will be achieved through the development of a number of electrotechnical compulsory specifications over the next three years. Various agro-processing projects also received attention and are currently in different stages of development. The regulation of processed meats specifically, is of interest. This is a new area of regulatory involvement and will require substantial resources to enable the NRCS to fulfil its mandate in this expansive industry.

Another new development is the need to introduce compulsory specifications for electrical vehicles, as these vehicles and other hybrid drive-trains become a reality in our country. Also, common standards for the motor vehicle industry in the SADC region are urgently required, as at present the regulatory processes and regulations are ill aligned, if at all.

In light of these challenges, the NRCS welcomed **the dti's** IPAP2 initiative to support the rollout of a technical skills plan. The NRCS has become fully engaged in this initiative and the new Client Relations Management (CRM) system reported on below forms part of this effort.

The IPAP activities are all aligned to deliver within specific time frames which are monitored and reported on in the quarterly reports.

Operationally, the 2010/11 financial year was a difficult year for the organisation. On average, 79% of the NRCS's income was received from industry levies and only 21% from government. Industry has been feeling the aftermath of the global financial crisis and resulting economic recession. Despite its massive contribution to South Africa's economy and social fabric, the 2010 FIFA World Cup proved a stumbling block for the NRCS as planning was interrupted and milestones not reached. These operational and financial challenges were further exacerbated by the industrial action during the third quarter of the financial year.

Great progress was made in improving efficiencies and service levels of the organisation. It is a goal of the NRCS to increase the incorporation of technology in the business processes to improve efficiency. We believe that risk-based inspections and mandatory registration of regulated companies, coupled with technology, will lead to high levels of effectiveness.

To this end, the NRCS introduced the development of a Customer Relationship Management (CRM) system during this year. The CRM system is intended to expedite client management by enhancing client registration, lodging of applications and approval of certificates. It will enable the NRCS to communicate and share critical information with its partners, including South African Revenue Services (SARS), the Department of Transport's e-Natis system, Companies and Intellectual Property Commission (CIPC) and International Trade Administration Commission of South Africa (ITAC). The system will also incorporate inspections and sampling information, thus streamlining processes and contributing to greater organisational efficiency and effectiveness.

Human Resources at the NRCS are an on-going challenge as the organisation operates in a highly specialised environment for which skills are relatively scarce. However, we have a high retention level and staff turnover for the 2010/11 financial year was 8%, and whilst there was unavoidably some skills loss, critical positions remained occupied. Unfortunately, lack of adequate financial resources hampers the implementation of the Competence Development

Programme and other corporate programmes. As at 31 March 2011, the organisation had a total staff complement of 287 permanent employees and six contract employees. Some inspection functions had inadequate human resources due to financial constraints but the NRCS's staffing position was stable.

In terms of governance, the NRCS once again adhered to the Risk Management strategy, revised policies and ensured compliance with the latest governance practices, codes and guidelines.

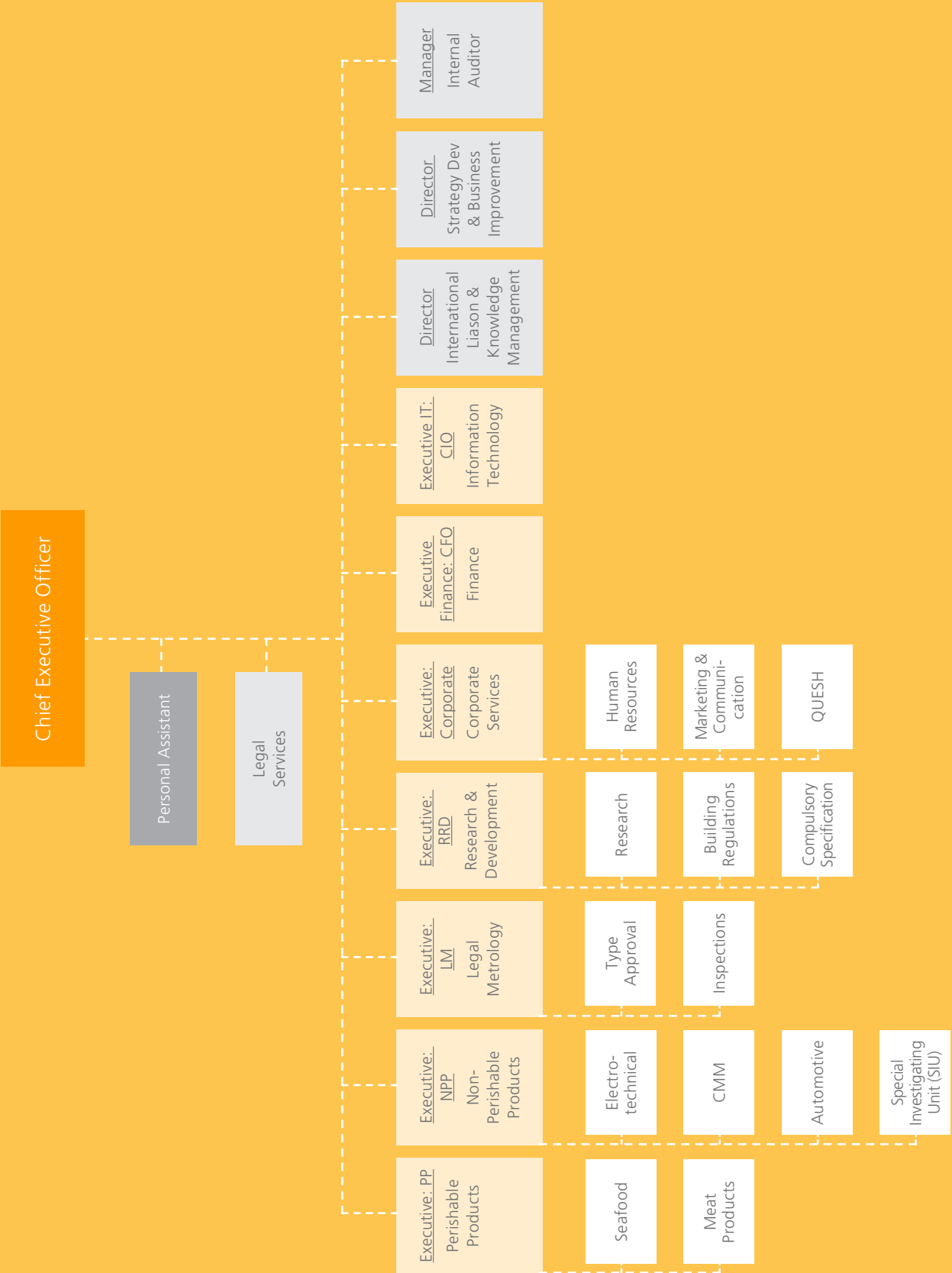
Not only is it essential to foster good working relationships with industry, but the NRCS has a statutory obligation to inform stakeholders about its activities. To this end, we conducted regular meetings with industry and communicated with the general public via the media as well as printed and online communication tools. Gradually, members of the media are becoming aware of the work and role of the organisation. Some discussion has been held this financial year around the possible establishment of a distinct mark for the NRCS, which would further enhance the credibility

of the organisation and its work. In addition to corporate communication, the NRCS also ensured that the public was alerted to potentially dangerous situations as well as the resolution of such situations.

All in all, 2010/11 was a year of further consolidation and continued improvement and it is safe to say that staff and management throughout the organisation have upheld their mandate and have done so with commitment and dedication. As consumer rights become more entrenched in our legislation alongside the other rights of the people of this great nation, the NRCS is proud of the critical role it plays and mindful of the responsibility and obligation it has to all South Africans.


Mr Moses Meeletsi
Chief Executive Officer

NRCS EXECUTIVE STRUCTURE



BOARD PROFILES



Advocate Derick Block

Advocate Derick Block is the current acting Chairperson of the NRCS Board. He holds a B Juris and an LLB degree and has extensive experience in various executive management positions. He was a Board Member of the Johannesburg Road Agency and the Medical

Research Council of SA. Presently he serves on various Boards and Audit Committees.



Mr Moses Moeletsi

Mr Moses Moeletsi is the current Chief Executive Officer of National Regulator for Compulsory Specifications. He has occupied various critical positions in government and joined the South African Bureau of Standards in 2005 where he was instrumental

in the establishment of NRCS. He has qualifications in Law and Labour Relations, a National Diploma in Theology and a Bachelor of Business Administration (BBA).



Ms Melato

Ms Melato is a scientist and academic specialising in Environmental Chemistry and Analytical Chemistry and has been a lecturer for the past ten years at the Tshwane University of Technology. She has an MSc in Chemistry and is currently completing

her PhD in Environmental Chemistry.



Ms S.E. (Lillibeth) Moolman

Ms S.E. (Lillibeth) Moolman is a respected consumer activist, having served in this role since 1975. She is a twice a recipient of a National Consumer Award for Excellence in Consumer Protection from **the dti** and has Honorary Membership of the South African National

Consumer Union (SANCU) of which she was Chair until 2010. She is the former chairperson of the National Consumer Forum (NCF). Lillibeth has and continues to represent consumers on an extensive list of councils, boards and organisations. She has an honours degree in History with a Higher Education Diploma.



Sipho Zikode

Sipho Zikode is the Deputy Director General: Empowerment Enterprise Development Division at **the dti**. He joined **the dti** in 1997 after completing his with B.Comm (Economics) and had various positions in the department. He has a Post Graduate Diploma in Marketing

Management, a National Diploma in Chemical Engineering and an MBA.



Dora Ndaba

Dora Ndaba is a respected businesswoman with an active involvement in the development of B-BBEE and women in business. She is a recipient of the prized Order of the Baobab award by the State President, and an active member of various business

organisations and councils as well as a member of numerous boards. She is currently completing her MTech in Transport.



Nico Vermeulen

Nico Vermeulen has been a respected and active businessman for forty years and has been a Director of the National Association of Automobile Manufacturers of South Africa (NAAMSA) since 1982. He serves on the boards

and committees of an extensive list of public entities and business organisations. He has bachelor of Social Science and a B.Comm (Honours) degree in Business Administration.



Professor S Perumal

Professor S (Ronnie) Perumal has 18 years' experience as an academic and administrator of the University of KwaZulu-Natal and is currently based in the School of Management. He has served on several councils and boards and has represented the University at numerous

international conferences. Professor Perumal has extensive education and expertise in the diverse field of commerce including a Doctorate in Commerce.

Legal Metrology Division

1. INTRODUCTION

Legal Metrology has one purpose – to see to it that consumers receive what they pay for, and no less. In other words, Legal Metrology must ensure that consumers receive the amount or quantity of goods that is declared by a manufacturer or supplier on the pre-packaged product, or where a measuring instrument is used to conclude a transaction, that the measurement is accurate.



Katima Temba
Acting Executive: Legal Metrology Division

The division achieves this by:

- ensuring that measuring instruments used in the manufacturing process are type evaluated for proper design, construction and accuracy within the South African climate and environment;
- doing inspections to ensure that manufacturers and suppliers use accurate instruments for trade and where manufacturers prepare pre-packages, these are not under-filled; and
- taking action against those manufacturers and suppliers that supply short measured products or use inaccurate measuring instruments.

Since October 2010, the responsibility of evaluating test reports with the view of issuing a letter of certification (LOC) for the gaming and gambling industry has been added to the responsibilities of Legal Metrology.

2. HIGHLIGHTS AND ACHIEVEMENTS

SERVICE DELIVERY

Even though the division lacked inspection capacity due to insufficient funding it conducted 13% more inspections than in the previous financial year, namely 6 099 in 2010/11 versus 5 401 in 2009/10. The division’s focus remained on the manufacturing sector rather than the retail sector.

During these inspections, the division evaluated 52 612 samples of products and the following non-compliances were uncovered:

Goods – type of contravention	Incidents of non-compliance
Short measure	11 376 (22%)
Unmarked goods	4 756 (9%)
Incorrect pack size	168 (0.3%)
Other	214 (0.4%)
Total	16 514 (31.8%)

Table 1: Non-compliance in Goods inspected

As can be seen in the above table, the biggest problem, as in previous years, was that manufacturers tried to place short measured goods on the market. The inspectorate also found a number of goods on the market that were not appropriately marked. A small number of products were found packaged in the incorrect pack size.

With regard to measuring instruments, a total number of 23 726 instruments were inspected and the following non-compliances were identified:

Instruments - type of contravention	Incidents of non-compliance
Verification status lapsed	4 467 (19%)
Unapproved	211 (0.9%)
Accuracy	162 (0.7%)
Technical/ marking	73 (0.3%)
Other	66 (0.3%)
Total	4 979 (21%)

Table 2: Non-compliance in Instruments inspected

To ensure that none of the non-compliant goods found their way to the consumer and that non-compliant instruments were not used in future transactions the division sanctioned the manufacturer, supplier or user and in this process issued a total of 14 188 embargoes and rejected 678 instruments. The inspectors issued warnings to 1 279 businesses and instituted prosecution proceedings against 90 repeat offenders on 1 086 counts.

The cost-saving to the consumer from the removal of non-compliant pre-packaged goods from the market or by ensuring the correction of non-compliances, is estimated at R 148.9 million. This is a substantial figure if one considers that the current market coverage of the Legal Metrology division is below 20%. Would it be possible for the division to cover 100% of the market, it is estimated that the cost-saving to consumers could have exceeded R 744.5 million.

The division also received 101 new applications from instrument manufacturers and suppliers for type approval and issued 69 certificates of approval for instruments that passed all requirements and tests.

A total of 161 letters of certification (LOC) were issued to the gaming and gambling industry.

To ensure that the NRCS remained on the cutting edge of Legal Metrology requirements, the division, together with the RR&D division, amended two standards, SANS 289 and SANS 458, which are referred to in technical regulations, and also participated in the development of a new standard SANS 923 dealing with taximeters. The technical regulation for this standard is still to be published.

JOINING FORCES WITH OTHER REGULATORS

During the past year, the Legal Metrology division continued to work closely with other African and international regulators in the field, engaging in the following activities:

- Represented South Africa on technical committees of the International Organisation of Legal Metrology (OIML) that requested input on changing recommendations (standards);

- Hosted the OIML Technical Committee 6 (OIML TC6) which deals with the labelling and accuracy requirements for pre-packaged goods and is currently developing a certification scheme to facilitate bilateral and multilateral cooperation on trade in pre-packaged goods;
- Attended the International Committee for Legal Metrology (CIML) meeting in Orlando, Florida, USA in October 2010, along with numerous technical committee meetings;
- Represented South Africa on Southern African Development Community - Cooperation in Legal Metrology (SADC MEL) and continued to host its secretariat; and
- Continued to host the secretariat of Intra-Africa Metrology System (AFRIMETS) and served on its Executive Committee.

An NRCS staff member, nominated by peers in SADC MEL, received an award from International Organisation of Legal Metrology (OIML) for his outstanding contribution to the development of Legal Metrology.

THE LEGAL METROLOGY REVIEW

The division assisted the dti with the development of a Draft Legal Metrology Policy that will give guidance to the development of a new Legal Metrology Act. Workshops were held throughout South Africa to solicit inputs from stakeholders on the subject. The final policy was submitted to NEDLAC and was accepted. The acceptance of the policy gives rise to the development of a new Legal Metrology Act which will be undertaken in 2011.

STAKEHOLDER SERVICES

The Legal Metrology division held meetings with suppliers of various products to inform and educate them on legal metrology requirements. Two formal sector committees, namely the accredited verification laboratory sector and the grain sector, were established.

The division was also requested to assist the Department of Agriculture, Forestry and Fisheries in a survey to establish the range and percentage injection of chicken pieces. It was established that manufacturers in South Africa on average

gained 33% in mass by this practice. All role-players in this survey attended the Parliamentary Portfolio Committee on Agriculture to discuss the findings and to find a way to curb this practice. NRCS will soon participate in the SABS Committee to amend SANS 289 to give effect to this request and to make the injection of chicken purely for weight gain, a transgression.

3. CHALLENGES

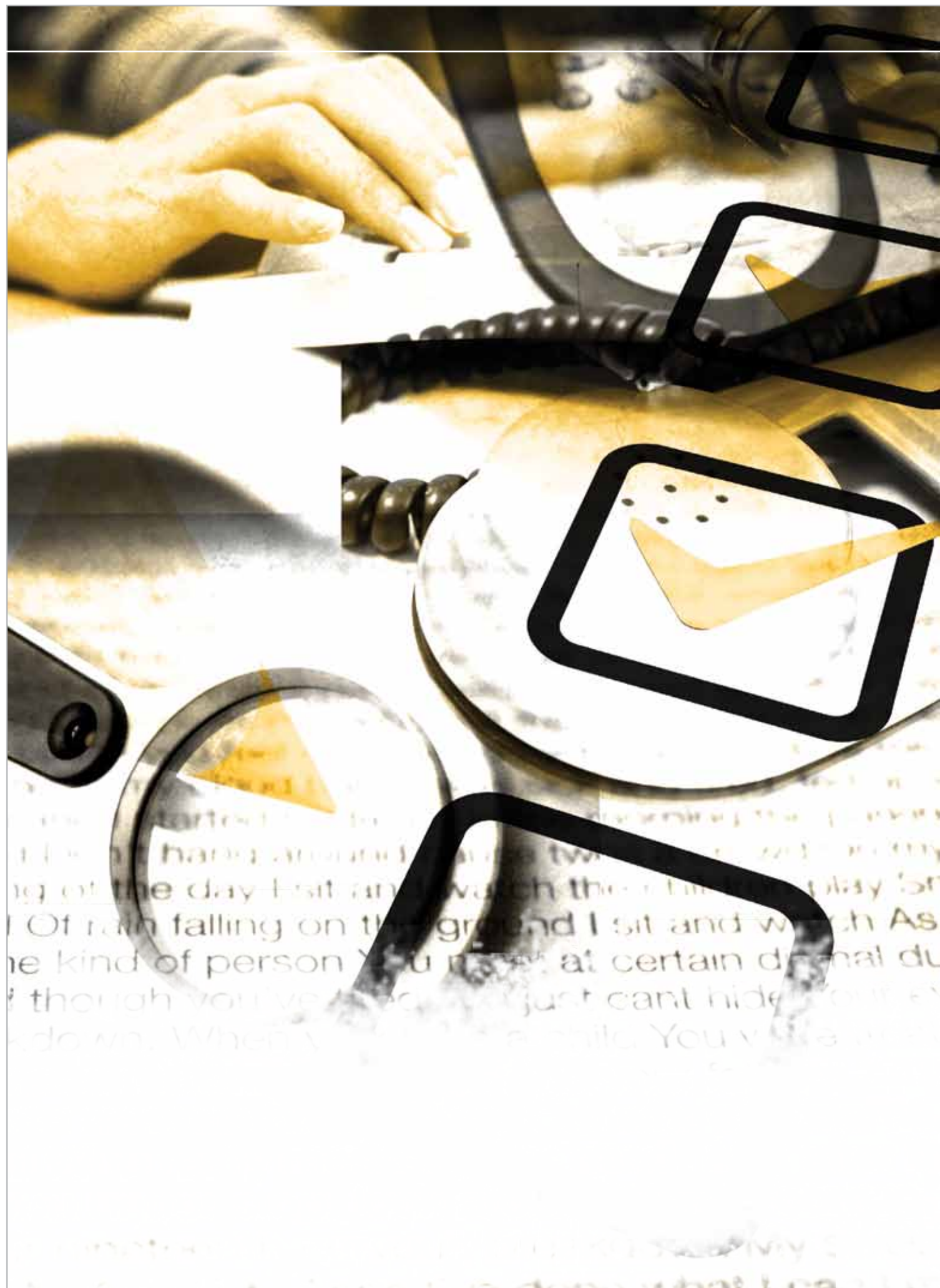
CAPACITY AND FUNDING CONSTRAINTS

There are several reasons for the high non-compliance rate amongst manufacturers and suppliers. One factor undoubtedly contributing is the lack of capacity of the NRCS, which in turn is linked to funding constraints. The client base of Legal Metrology is by far the largest at the NRCS, spanning the entire economy including all manufacturers of pre-packaged goods and all users of measuring instruments used to conclude trade transactions. However, Legal Metrology does not have the resources for the scale of inspection coverage required to combat non-compliance.

The funding model used by Legal Metrology is the main reason for the funding constraints and lack of capacity. Unlike other NRCS divisions, Legal Metrology receives its principal source of funding through a government grant, which is inadequate. Although Legal Metrology also receives income from its calibration, verification, type approval and assessment activities, this too is insufficient. The NRCS therefore welcomes the fact that the funding issue is being reviewed by the dti. The funding issue will also be addressed as part of the Legal Metrology Review which is currently underway.

4. CONCLUSION

Through Legal Metrology, the NRCS remains committed to protect the consumer’s right to receive goods and services for which they pay, as well as ensuring confidence in the measurements that the South African industry make, which in turn leads to increased market access.



Regulatory Research and Development (RR&D) Division

1. INTRODUCTION

The Regulatory Research and Development (RR&D) division is responsible for:

- The development and updating of all the 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).



Mariana Marneweck
Acting Executive: Regulatory Research and Development Division

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 of the proposed regulatory intervention. In essence, the work of the division involves gathering crucial information to advise line departments and the organisation in general. The division also serves as a representative of the organisation in relevant national and regional forums.

2. OVERALL PERFORMANCE

The RR&D division was responsible for the development and subsequent submission of eight new and amended compulsory specifications and technical regulations to **the dti**. This included three new and two amended compulsory specifications under the NRCS Act; two new technical regulations under the Trade Metrology Act and one new building regulation under the National Building Regulations and Building Standards Act.

The new specifications are:

- **VC 9002** for safety footwear (submitted to **the dti** for final gazetting);
- **VC 9003** for safety glazing for buildings (submitted to **the dti** for first gazetting); and
- **VC 9001** for live aquaculture abalone (submitted to **the dti** for first gazetting).

The amended specifications included are:

- **VC 8029** for cord sets and cord extension sets (submitted to **the dti** for first gazetting); and

- **VC 8026** for O1 and O2 vehicles (caravans and light trailers) (submitted to **the dti** for first gazetting).

The two new technical regulations under the Trade Metrology Act are the:

- Trade Metrology regulation for belt weighers (submitted to **the dti** for first gazetting); and
- Legal Metrology regulation for accuracy of measurement of cryogenic liquids (submitted to **the dti** for first gazetting).

In support of the IPAP sustainability targets the Building Regulation Part XA for energy-efficient buildings was also submitted to **the dti** for first gazetting. Eight out of a target of eight specifications and technical regulations were submitted to **the dti**.

Furthermore, several research projects were undertaken and a significant amount of productive time was used to finalise a research project and position paper to advise the NRCS Exco and the NRCS Board about the possibility of developing a distinctive mark for the NRCS.

Additional research projects included:

- An internal business improvement project on sampling, its costing and turnaround time;
- The identification and profiling of Building Control Officers (BCOs) within local authorities in South Africa, which lead to the establishment of the BCO Steering Committee; and
- The submission of a research proposal to the University of Stellenbosch on the possible future impact of nanotechnology on product regulation in South Africa.

Extensive research was also done as part of the completion of several feasibility studies and risk and impact assessments that were completed during the year.

An MOU was entered into with South African Institute of Architectural Technologists to support the development of energy efficiency skills programmes for presentation to local authorities and municipalities throughout South Africa between August 2010 and November 2013. Funding to support this initiative is provided by the Swiss Development Corporation. This agreement will ensure the development of modular courses aimed at training the building regulators at local government level. The NRCS NBR section is responsible for oversight and quality control in the development of this three phased initiative.

The first phase is to ensure the development of modular course material that will enable the building regulators to receive meaningful training. The second phase is the rollout of these modules and the verification of their effectiveness for building control officers. The final phase, supported by current funding will provide support for the full training of officials and councillors at five predetermined local authorities throughout the country.

Thus far the MOU has resulted in a total of 1 397 building environment practitioners being trained, of which 772 were municipal employees (building control officers, building inspectors and plan examiners) at 35 locations throughout South Africa. The remaining 625 trainees were professional practitioners in this field, who are now aware of existing and forthcoming changes to the legislation and standards.

3. HIGHLIGHTS AND ACHIEVEMENTS

Compulsory specifications

The following compulsory specifications were submitted to **the dti** for final gazetting:

- amendment of VC 8072 for respirators;
- withdrawal of VC 8073 for breathing apparatus; and
- new VC 8098 for motor vehicles of category L (motor cycles, motor tricycles and quadracycles).

A report was submitted to the Board in January 2011 on new compulsory specifications for which requests had been received but were not approved after initial feasibility investigations were done. These requests included specifications for pet food products, the manufacture of ready-mixed concrete and the regulation of additional items of personal protective equipment.

Trade Metrology

The following risk assessments for technical regulations were done:

- Multi-dimensional measuring instruments on 19 October 2010; and
- Gas meters on 3 November 2010.

The final stakeholder meeting for belt weighers was held on 21 October 2010.

In addition, the following technical regulations are awaiting progress of national standards before being finalised:

- Non-automatic weighing instruments including mechanical counter scales and beam scales: waiting for publication of the revised SANS 1649.
- Liquid meters other than water: waiting for the committee draft of the revised SANS 1649 before doing an impact assessment.
- Automatic rail vehicle scales: waiting for the committee draft of the revised SANS 689.
- Taximeters: waiting for publication of SANS 923 and agreements with the Department of Transport and other stakeholders as to an implementation date.

In the area of trade metrology the NRCS actively assists the SABS with the drafting of national standards by providing research and technical input to the national standards in various stages of completion. The following standards were drafted:

- a) SANS 923 – Taximeters
- b) SANS 863 – Continuous totalising automatic weighing instruments – Belt weighers.
- c) SANS 1649 – Non-automatic self-indicating, semi-self-indicating and non-self-indicating weighing instruments with denominated verification scale intervals.
- d) SANS 289 – Labelling requirements for pre-packaged products (pre-packages) and general requirements for the sale of goods subject to legal metrology control.
- e) SANS 458 – Tolerances permitted for the accuracy of measurements of products (including pre-packaged products) in terms of legal metrology legislation.
- f) SANS 10378 – General requirements for competence of verification laboratories in terms of the Trade Metrology Act.
- g) SANS 10343 – Verification of non-automatic electronic self-indicating road vehicle mass measuring equipment for use by road traffic authorities.
- h) SANS 1838 – Electronic self-indicating road vehicle mass measuring equipment for use by road traffic authorities – Part 1: Non-automatic mass measuring equipment for static mass measurement.

Instruments in (f) and (h) are not currently covered by Trade Metrology Legislation but the NRCS acts as technical expert to ensure regulatory matters are adequately covered and that the standards will be suitable for adoption in due course under the Trade Metrology Act.

- The following documents were also prepared by the technical specialist for trade metrology:
- Facilitators guides for training of inspectors on requirements of SANS 1529-1 and SANS 1529-9 for water meters.
 - Motivation to the NRCS Board and **the dti** for new Legal Metrology Tariff of Fees structure.

National Building Regulations

One of the important interventions mandated under the NBRBS Act is the responsibility for Review Board hearings. Five hearings took place during the period under review in different provinces.

Date	Place
21-22 July 2010	Port Elizabeth
21 January 2011	City of Tshwane and Wonderboom South
10 February 2011	Sheffield Beach, KwaZulu Natal
29 March 2011	Stellenbosch
30 March 2011	Granger Bay, Cape Town

Table 3: Review Board hearings held

The NRCS NBR section also provides written interpretations of the NBRBS Act and regulations to the public. The technical advisor responded to an average of 21 written queries and questions per month that had to be clarified in terms of interpretation of the National Building Regulations. This equates to roughly 250 specialist interpretations for the period.

- Furthermore a total of 14 presentations were done to professionals and associations e.g. the following:
- Keynote address at Plumbdrain Breakfast, opening of Afribuild International Exhibition at Nasrec (September 2010).
 - Presentation on the position of BCO’s within local authorities to the executive of South African Local Government Association (SALGA) (October 2010).
 - Presentation entitled “Regulating Efficient Energy in Buildings in South Africa” at the combined SABS open day and the ISO 59 Construction meeting (October 2010).
 - Presentation to delegates from South African Property Owners Association (SAPOA) informing them of changes to the regulations as well as the imminent energy efficiency in buildings regulations (November 2010).
 - Keynote address at World Plumbing Day celebrations - presented paper entitled “Mandatory Standards are not optional”.

The Technical Advisor: NBR was also elected as chairperson of the Project Steering Committee of the Swiss-funded intervention programme outlined above (MOU between SAIAT and the NRCS).

The first BCO Steering Committee meeting was held on 8 December 2010 at the NRCS offices in Pretoria and a follow-up meeting was held on 18 February 2011 in Cape Town. The BCO Steering Committee’s scope was defined as follows:

“To promote national uniformity in terms of interpretation and application of the NBR Act and other applicable regulations by identifying weaknesses and shortcomings in the building control environment in South Africa as well as proposing and adopting solutions; actively promoting the image and status of the BCO’s in SA; ensuring effective communication and information flow; on-going monitoring, review and improvement of the NBR Act and other relevant regulations through service and enforcement initiatives; motivate and actively influence formulation of new/amended legislation(s); sharing and distributing knowledge and experience through continual professional development; and acknowledging and upholding the principle of Batho Pele.”

RR&D attended numerous national standards technical committees to represent the NRCS’s view and to influence the outcomes of the standards-setting process.

In terms of IPAP, the NBR section assisted **the dti** in developing a policy and drafted a project plan for water efficiency in buildings, with the purpose of developing a new regulation for efficiency in water consumption and usage of buildings.

On 21 September 2010 the first Building Control Officer convention was hosted by the NRCS. The event was attended by 88 BCO’s from across the country. Important information was shared with them and a cohesive group was formed. The steering committee was also elected.

Development of policies and procedures (corporate and divisional)

Significant progress was made in the development of policies and procedures. The corporate procedure for the development of compulsory specifications, CSP 350, was approved and published. The final drafts of several divisional procedures in support of CSP 350 were prepared and workshopped.

Three technical specialists from the RR&D division are permanent members of the working group responsible for the drafting and review of all NRCS corporate procedures. The development of formal procedures to support the Review Board process was also initiated and significant progress was made.

4. REGIONAL AND INTERNATIONAL INVOLVEMENT

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

Three WP.29 meetings were attended during the year.

There were 102 amendments to UN ECE Regulations under the 1958 Agreement published of which 72 affected 30 different regulations that are referred to in the motor vehicle compulsory specifications. These amendments also affected the requirements of the road traffic regulations and four amendments were proposed and approved by the Department of Transport technical committees.

New regulations on light emitting diode (LED) light sources and pedestrian safety were proposed. Under the 1998 Agreement three amendments to existing global technical regulations (GTRs) were published.

RR&D also participated as members of the WP.29 Working Group on International Whole Vehicle Type Approval (IWVTA). A presentation was made to the group on the requirements of the South African Compulsory Specifications.

The SADC group of experts on the harmonisation of vehicle standards

- Two SADC meetings were held during the year. Five items for harmonisation were under discussion:
- a) Road worthiness of motor vehicles
 - b) Evaluation of vehicle test stations
 - c) The transportation of dangerous goods
 - d) The transportation of abnormal loads
 - e) Amending documents already ratified by Ministers of Transport:

- i) Equipment on vehicles
- ii) Loads on vehicles
- iii) Dimensions of vehicles

In all cases the South African legislation or national standards have been amended as SADC documents and have been submitted to member states as working documents. The two regional bodies, Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC), have expressed the desire to be part of the discussions and therefore in future the meetings will be held as part of the Tripartite Task Force, with meetings being hosted alternatively by the regional bodies.

A presentation was made to SADC member states on the South African compulsory motor vehicle specifications and on the workings of WP.29. Both presentations were made to encourage member states to adopt similar compulsory specifications and to attend WP.29, either as an independent member state or as a regional body.

Trade Metrology: SADC

The NRCS continued to play a leading role in the region in the development and advancement of trade metrology. The RR&D division and the Legal Metrology division worked together to contribute in the following ways:

SADC SQAM: The NRCS technical specialist, in our role as SADC Cooperation in Legal Metrology (SADC MEL) Secretariat, attended several SADC Standards, Quality, Accreditation and Metrology Expert Group (SQAMEG) meetings to discuss various crosscutting issues of importance to SQAM structures and to plan for the 2011 meetings of SQAMEG and the six SQAM structures. The final Steering Committee meeting of the EU/SADC SQAM Support Project was also attended to discuss the final report of the Technical Assistance team and the project evaluation. Furthermore, in March 2011 the 25th SADC MEL meeting and SQAMEG meeting were attended to assist the Regional Coordinator.

EU/SADC SQAM Support Project: Assistance was provided with arrangements for four training activities and facilitation of the course on taximeters.

Model Law on Metrology: NRCS technical specialists assisted the project. Technical expert to drafted a model law on metrology for use by SADC members. This was modelled on requirements given in OIML D 1 of the International Organisation of Legal Metrology (OIML). Assistance was also provided with the facilitation of a workshop in Gaborone to introduce members to model law and explain its requirements.

Member state visits: As part of the project outcome evaluation and to sensitise law makers and other responsible government officials to the importance of a sound legal metrology system, NRCS technical specialists, once again representing the SADC MEL Secretariat, visited seven SADC member states.

The attendance of meetings and assistance offered on behalf of the SADC MEL Secretariat furthered the commitment of NRCS to playing 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.

AFRIMETS: NRCS presented a paper on the background to legal metrology at the Intra-Africa Metrology System (AFRIMETS) Metrology School that was attended by 80 metrologists from 34 African countries and seven participants from Asian and American countries.

Trade Metrology: OIML

RR&D worked with the technical specialists of the Legal Metrology division in the development of legal metrology on an international level, through participation in the OIML.

OIML Technical Committee 6: As part of the OIML Technical Committee 6 Secretariat, NRCS specialists assisted with input into international documents currently being developed or revised by OIML TC 6, the collation of international comments and preparation of new drafts for the OIML "International system for the certification of pre-packages" and OIML R 79 which deals with quantity labelling of pre-packages, and preparation of a questionnaire requesting proposed amendments to OIML R 87 which deals with the accuracy of packing and test methods for pre-packages.

OIML R 79 and OIML R 87 are used as the basis for SADC requirements and therefore also for South African requirements and as far as possible local requirements are catered for. South Africa will participate in the international system for the certification of pre-packages once it is finalised.

OIML Award: The NRCS technical specialist in Trade Metrology (Brian Beard) was honoured at the 45th meeting of the International Committee of Legal Metrology (OIML) with an award for an outstanding contribution to the development of international legal metrology.

International training

Two of the RR&D technical specialists attended a week-long European Union training course on regulatory impact assessments during May 2010 in Rome, Italy.

6. GOING FORWARD

The need to focus on sustainability is increasingly becoming an important aspect of the NRCS regulatory activity going forward. The incorporation of specifications that support a sustainable use of natural resources and protect the environment will become more and more critical. This has been identified as a priority issue by IPAP and its importance was reflected in the NRCS strategy during the past year. Support for 'green' and energy-saving industries such as solar water heaters, energy efficiency, water efficiency, and energy efficient vehicles were an inherent part of the RR&D business plan.

Currently no funding is provided for the regulatory activities required by the National Building Regulations and Building Standards Act, nor is there adequate specific funding provided for the Research and Development function. All of these areas will require clear sub-strategies and a significant investment of money, time and resources in the immediate future.



Delegates of the BCO 2010 Convention



Perishable Products Division, Food and Associated Industries (FAI)



1. INTRODUCTION

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

Michael Young
Acting Executive: Perishable Products Division

In addition to protecting the health and safety of the consumer, the division also aims to meet the following objectives in the rendering of its services:

- Ensuring compliance with food and associated regulations;
- Assisting role players to comply with local and international requirements; and
- Promoting fair trade and protecting national and international markets.

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

The division has a panel of highly trained and technically competent inspectors and specialists. The inspection system of the division is based on inspection, monitoring and surveillance of factories, processes and products. As confirmation of the credibility of its inspection results and to verify the competence of its inspection system, the division is accredited to ISO 17020, general criteria for the operation of various types of bodies performing inspection.

At national level, the division works in close co-operation with several other legislators in the food arena and FAI inspectors are also authorized in terms of the relevant legislation, to administer the requirements of the Foodstuffs, Cosmetics and Disinfectants Act, (Act no 54 of 1972), in their line of duty.

Internationally, FAI participates in various activities of Codex Alimentarius and international sensory evaluation working groups, and has also entered into various international technical agreements.

As a member of the World Trade Organisation (WTO), South African food regulatory authorities are obliged to ensure compliance with both the WTO Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) agreements. This task also falls to the FAI division of the NRCS.

Compulsory specifications administered

FAI administers compulsory specifications for:

- the manufacture, production, processing and treatment of canned meat products;
- the manufacture, production, processing and treatment of canned fish, canned marine molluscs and canned crustaceans;
- frozen fish, frozen marine molluscs and frozen products derived from such;
- frozen rock lobster and frozen lobster products derived therefrom;
- frozen shrimps (prawns), langoustines and crabs; and
- smoked snoek.

These compulsory specifications are aligned with international guidelines and practices and harmonised with the Standards and Codes of Practice of Codex Alimentarius. They apply to all products sold in South Africa (whether locally produced or imported) and those exported to other countries.

2. OVERALL PERFORMANCE

The division's objective of ensuring food safety and therefore consumer protection was achieved as no evidence of consumer illness or death from products regulated by FAI was reported during the year under review.

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

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

Inspections

During the year under review, the FAI division exceeded its target of inspections for the year, carrying out a total of 31 105 inspections as opposed to the target of 29 568 set in the business plan. This equates to a positive variance of approximately 5,2%. Details of the inspections are outlined in table 4.

	Annual target set in business plan	Actual inspections achieved
Imported canned fish	8 500	9 060
Imported frozen fish	1 726	2 006
Exported frozen fish	5 100	4 720
Exported live products	3 869	5 006
Exported chilled fish	3 550	3 114
Local canned fish	1 260	2 447
Local canned meat	4 348	3 141
Local frozen fish	771	1 239
Factory inspections	444	372
Total Inspections	29 568	31 105

Table 4: Annual inspections by FAI for the year April 2010 to March 2011

The division also performed numerous technical inspections of import/export consignments, factories, fishing vessels,

depots and the like. Table 5 gives a breakdown of these activities, including certificates issued:

Technical inspections	
Import and export	Annual number
VC's regulated	6
Canned imported consignments inspected	9 060
Frozen imported consignments inspected	2 006
Frozen export consignments inspected	4 720
Live export consignments inspected	5 006
Chilled fish export consignments inspected	3 114
Local	
Canned fish inspections	2 447
Canned meat inspections	3 141
Frozen seafood inspections	1 239
Certificates issued	
Compliance certificates issued	17 248
Health guarantees / export certificates issued	11 200
Rejections	
Non-compliance certificates issued – substandard	625
Non-compliance certificates issued - not for sale	198
Directives issued	36
Inspections	
Factory inspections	372
Vessel inspections	450
Retail inspections	21
Sales permits issued	
Imported canned fish products	4
Imported canned meat products	0
Imported frozen fish products	1
Local canned fish products	19
Local canned meat products	6
Local frozen fish products	0
Sampling to test laboratories	
Number of samples from the local manufacturers	13 807
Numbers of samples from importers	11 476

Table 5: Compliances, sanctions and intervention in non-compliant goods

As a result of technical inspections, a total of seven illegal or non-compliant products were removed from the shelves.

A total of 28 incidences were recorded where the division intercepted non-compliant, dangerous or sub-standard foodstuffs, mostly seafood products, and prevented them from entering or removed them from the market.

This included eleven incidences of high mercury levels in fish products and numerous cases of fish or seafood being unfit for human consumption, with the product having been spoiled (colour or odour indications).

Two customer complaints were received and handled and five customer concerns were received, one of which had yet to be finalised at the close of the reporting year.

A series of successful raids were conducted at warehouses of various importers of frozen prawns. The services of Legal Metrology were called upon to contribute to this investigation of allegations of deliberate short packing of the weight of frozen prawns. All non-compliant prawns were prohibited from sale and appropriate corrective action was implemented.

Compulsory specifications/technical regulations processed

During the year under review, the following documents were reviewed with the SABS Standards division:

Reviews:

- SANS 585 (frozen fish)
- VC 8031:1987 (prawns, langoustines and crabs)
- SANS 885 (processed meat products - to become compulsory)

The following compulsory specification is under development:

- SANS 729, Live aqua-cultured abalone (projected implementation date is July 2011).

International liaison and participation

Various delegations were sent by FAI to international trading partner nations in order to clarify required standards for

fish products and to inspect local facilities. These included Thailand, China, Malaysia and Morocco. In addition, fact-finding missions were sent to India and Brazil to benchmark the standards of these two growing trade partners with that of South Africa.

A number of international delegations and representatives visited the division's offices in Pretoria and Cape Town to discuss agreements or obtain standards information. Among them were representatives from suppliers and authorities in China, Cook Islands, Ecuador, Canada, Tristan da Cunha and Denmark.

Inspectors of the Botswana Bureau of Standards came for training and fact-finding, and FAI specialists travelled to Malawi to give a presentation on how Malawian standards can meet EU requirements.

Representatives of the World Wildlife Fund met with FAI staff to discuss whether there were any possibilities that some of their objectives to promote standards for environmentally friendly and sustainable seafood could be adopted in specifications.

A technical agreement was entered into with Tristan da Cunha authorities to inspect frozen rock lobsters from Tristan being stored in Cape Town for export to EU countries, and the agreement in place with the Thailand Department of Fisheries since 2001 was revised and renewed.

One FAI official travelled to Bonn, Germany for training on HACCP-auditing in the EU.

Involvement in the national and international standards setting process

In order to ensure local relevance and keep standards in line with international best practice, FAI interacted extensively with other relevant South African authorities in the standards-setting process, as well as international discussions and forums on the issue. The following are a few highlights:

Attended 33rd Session of Codex Alimentarius Commission (CAC) Codex Committee for Africa (CCAFRICA) meeting

in Geneva as part of South African delegation consisting of NRCS, Department of Health (DOH) and Department of Agriculture, Forestry and Fisheries (DAFF)

- Participation on an on-going basis in South African Codex working groups on various issues
- Attended regular Food Legislation Advisory Group (FLAG) meetings arranged by Department of Health
- Attended Codex Committee for Africa (CCAFRICA) meeting in Accra, Ghana as a member of the South African delegation

Human Resources

A huge emphasis was placed on ensuring the technical competence of FAI inspectors. Various official internal technical courses and workshops as per the Competency and Development Programme were presented by experts/specialists to improve the general knowledge and skills of inspectors.

In addition, officials were given exposure to international practices in Thailand and the EU and received risk analysis training by South African Association for Food Science and Technology (SAAFoST).

Stakeholder relations

• Consumers

All consumer concerns were handled within the specified time frame, while no consumers indicated dissatisfaction with the handling of concerns or with the feedback given to them.

Consumers were also addressed or informed through media exposure, including television interviews (e.g. the issue of mercury in fish) and alerts on possible hazards such as the official voluntary recalls instituted on imported canned fishery products.

• Industry

There are on-going interactions between FAI staff and members of retail, import/export, manufacturing and other relevant industry sectors. It is the aim of FAI to assist industry at all levels to meet the compulsory specifications and other requirements.

Interactions include technical meetings with members of the fish industries, canneries and major brands of canned and processed foods and on-going technical meetings with major retailers.

The FAI division also gave presentations and held information sessions on various issues throughout the year.

• Government

Close relationships are maintained with relevant government departments and bodies, including **the dti**, the Fisheries section of the Department of Agriculture, Forestry and Fisheries (DAFF) (formerly Marine and Coastal Management), the Food Control Directorate of the Department of Health, customs officials of the South African Revenue Services and the Perishable Products Export Control Board.

Consumers were also engaged and informed through media exposure such as television interviews, newspaper articles and a radio interview.

3. HIGHLIGHTS AND ACHIEVEMENTS

Of the many activities reported on above, the following are considered to be the highlights for the FAI division for the year under review:

- Various internal and South African National Accreditation System (SANAS) audits took place during the year. All audits and system reviews indicated that the Quality Management System (ISO 17020 Accreditation) is well entrenched and performing to requirements and expectations.
- FAI specialist input was broadcast more than once on the national TV actuality programme Carte Blanche. The programmes covered issues pertaining to methyl mercury in frozen fishery products and false labelling of fishery products.
- A new agreement was signed between the NRCS and the Department of Fisheries of Thailand and a technical agreement was entered into with the Tristan da Cunha authorities.

- Various international visits were made to authorities in Australia, Brazil, China, Ghana, India, Malawi, Malaysia, Morocco, Namibia, Switzerland, and Thailand.
- FAI represented the NRCS at the International Union of Food Science and Technology (IUFOST) exhibition at the 15th World Congress of Food Science and Technology. The NRCS (FAI) was the only regulator present and a wide range of products regulated by the division was displayed.
- The FAI division attended training in Thailand on how inspection systems and testing for fishery products are operated in Thailand and compared with our own systems and visited Bonn in Germany on invitation of the EU at the request of the South African Department of Health.
- A successful SANAS audit and continued accreditation since 1998.
- A successful voluntary national recall of imported canned fish which posed a risk to human health.

4. MAJOR CHALLENGES

- A shortage of dedicated and qualified personnel to maintain the service remains an on-going challenge and vacant positions cannot be filled due to financial constraints.
- There remain cases of illegal imports where FAI is not informed by Customs or Port Health of products entering the country.
- Various fish establishments had to close down due to the bad economic environment. Some traditionally safe and very profitable markets became unavailable, which caused the industry to sit on relatively large stocks of perishable products with rather limited storage life. This affected the income of the division, which is derived mainly from the fishing industry.
- Some of the large companies had to restructure their efforts due to inadequate allocation of quotas,

unavailability of raw materials linked to bad fishing, poor weather conditions and unfavourable pricing structures due to the effect of fluctuating exchange rates. This resulted in an adverse effect on the budgeted income of the division.

- The various changing industry trends put additional pressure on the FAI division to identify such trends correctly and to be able to apply the division's resources effectively.
- The depletion of local resources stimulated the need to import relatively large consignments of canned fish. In the case of imported frozen and canned fishery products, products were to a large extent sourced from operators and countries that have not traditionally traded with South Africa. This resulted in more rejected products, due to unsafe or bad quality. Some products had to be re-labelled to comply with South African requirements. In various instances, bad quality and unsafe products had to be destroyed or returned to their country of origin. The FAI division must be very careful so as to ensure that South Africa does not become a dumping ground for non-compliant products.

5. GOING FORWARD

The FAI division will continue to work in a manner that will protect the South African consumer, meet the requirements of the national government and retain its excellent reputation internationally.

In the light of the skills shortage challenge, the FAI division will make staff morale and development a priority so as to ensure maximum retention and to encourage a pleasant and efficient working environment.

FAI will work to increase the number of satisfied clients and stakeholders and, aims to expand the regulating and inspection activities of the division in the 2011/12 financial year to include cultured abalone and processed meat products.





Non Perishable Products Division

1. INTRODUCTION



Musa Ndlovu
Acting Executive: Non-Perishable Products Division

The Non Perishable Products division (NPPD) is a market surveillance division within the NRCS and consists of three market surveillance departments and a special investigations unit.

The three market surveillance units which reside within the NPPD are:

- **Automotive department**

The Automotive department is responsible for the regulation of compulsory specifications applicable to motor vehicles and certain replacement components and accessories of motor vehicles. In addition, it is the inspectorate for manufacturers, importers and builders (MIBs) of motor vehicles under a mandate given by the National Department of Transport (DoT).

- **Chemical, Mechanical and Materials (CMM) department**

The CMM department is responsible for the regulation of compulsory specifications that fall within the scope of a number of industry sectors. Currently, these include: personal protective equipment such as safety footwear and respiratory protective devices; firearms and associated industries; flame-producing devices such as paraffin stoves and cigarette lighters; health-related products such as microbiological safety cabinets and disinfectants; construction materials such as cement and treated timber; and environmental protection, which covers products such as plastic carrier bags and coal burning stoves.

- **Electrotechnical department**

The Electrotechnical department is responsible for the

regulation of compulsory specifications which span a wide spectrum of electrical and electronic products. The regulated products include household appliances such as heaters, refrigerators and television sets, plugs and adaptors, electric cables, lamps and circuit breakers. The department also operates under the mandate of other government departments such as the Department of Labour.

The **Special Investigations Unit (SIU)** completes the quartet of units under the NPPD. The SIU is currently under construction and is intended to serve not only the division, but the entire NRCS. The envisaged mandate of the SIU is to conduct special, high-level investigations, beyond the investigative duties of inspectors, to support and fill the gaps identified in the market surveillance activities and to close loopholes by unearthing the necessary forensic evidence to ensure more successful prosecutions of offenders. The unit will be staffed by specialist investigators in such areas as customs, enforcement and auditing and data analysis.

Within the NRCS value chain business processes (as shown in Figure 1 below) the NPPD business processes include:

- the approval or homologation of products;
- market surveillance inspection;
- testing products at accredited third party laboratories; and
- administering sanctions of non-compliant products in terms of Section 15 of the NRCS Act.

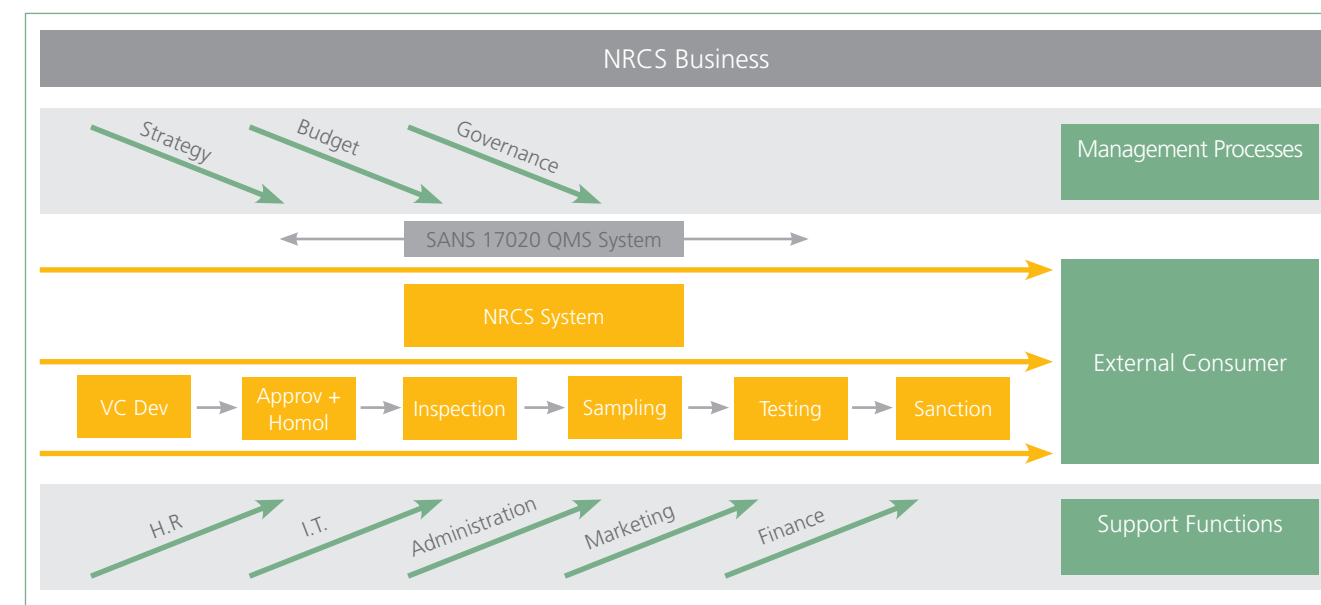


Figure 1: The NRCS business processes

2. OVERALL PERFORMANCE

Inspections

During the year under review, the NPPD exceeded its target for inspections, recording 20 367 inspections compared to

a target of 19 405, which resulted in a positive variance of 5%. The cumulative inspection trend over the financial year is illustrated in Figure 2.

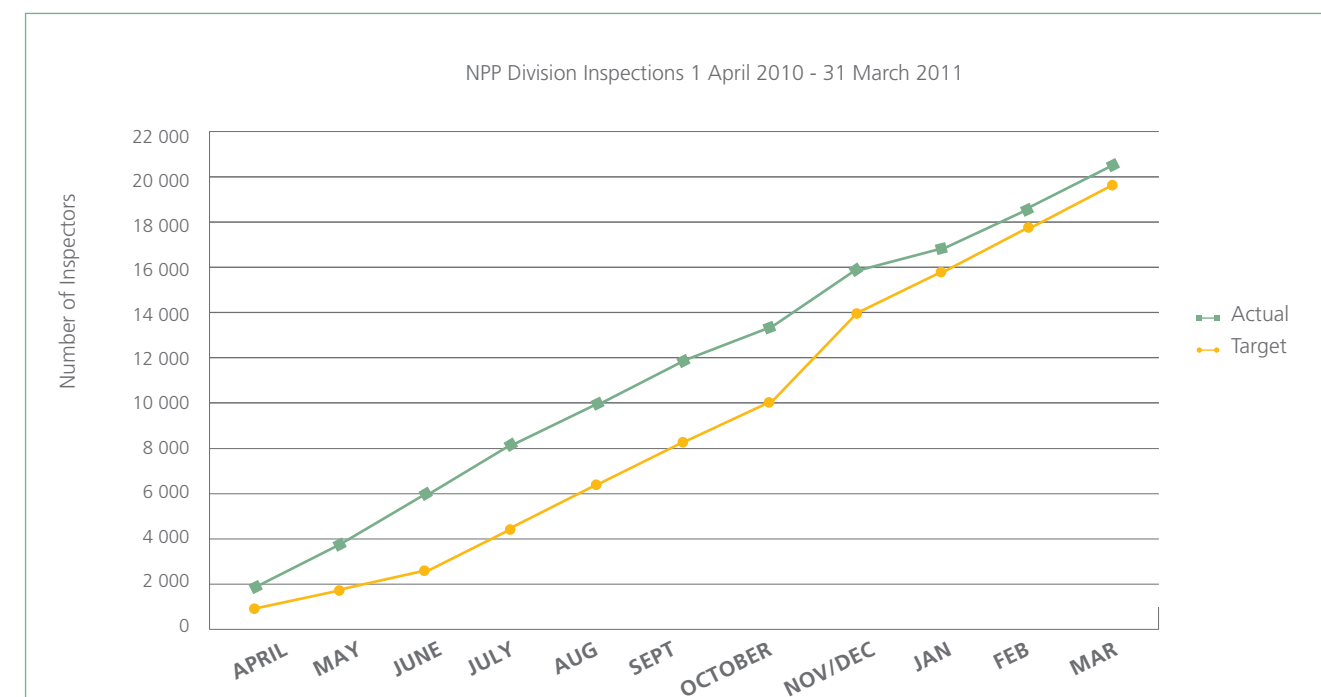


Figure 2: The NPPD market surveillance inspections

Each of the three market surveillance departments exceeded the set inspection targets:

Department	Target inspections	Inspections achieved	Positive variance
Electrotechnical department	8 135	8 414	3.4%
Chemical, Mechanical and Materials department	6 720	6 967	3.7%
Automotive department	4 550	4 986	9.6%

Table 6: Performance of Departments against targets

The targets had been deliberately skewed in that they had been set low in the first quarter, April to June; and high in the subsequent quarters, because at the time it had been assumed that the 2010 FIFA World Cup™ would make it difficult for inspectorate to travel around the country during that period. However, this assumption was not realised in practice.

Approvals/homologations

The NPPD issues pre-market approvals for certain regulated products that meet the set requirements. These pre-approvals are given after evaluating submitted evidence of compliance against the relevant compulsory specification. During the period under review, the division achieved its target of carrying out pre-market approvals or homologations within the set turnaround time of 21 days in all three departments.

- Electrotechnical department processed 6 058 approvals;
- CMM department processed 622 applications; and
- Automotive department approved a total of 2 997 vehicles in the categories of light and heavy passenger vehicles, heavy and light commercial vehicles, light and heavy trailers and agricultural trailers.

Testing

The NPPD takes random samples of regulated products on the market, using statistical sampling techniques, for testing to verify compliance. A total of 664 samples were sent to accredited third party laboratories for testing against the requirements of the relevant compulsory specifications, at a cost of R3.75 million. The Electrotechnical and Automotive departments accounted for 33% and 15% respectively, whilst the CMM departments submitted 52% of the samples for testing.

Sanctions

When non-compliant products are found on the market, sanctions are applied 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 taking action as may be decided by the NRCS Board. A system of directives is used to give effect to the sanctioning process.

In the 2010/11 financial year, approximately 60% of the CEO directives were issued within the target turnaround time of 72 hours, with a total of 1 192 directives being served by the three departments. At the beginning of the financial year, the target turnaround times could not be met largely due to logistical constraints. From the third quarter however, the use of blank pre-signed directives improved the turnaround times to such an extent that over 90% of the directives were served within the target turnaround period. For the period under review, Electrotechnical served 879 directives while CMM and Automotive served 282 and 31 directives respectively.

Quality Management System

The three departments are accredited to ISO17020 for inspection bodies and operate a quality management system which is geared to give assurance at a high significance level of the reliability, consistency and repeatability of an excellent service level across the business processes.

During the period under review, the CMM and Electrotechnical departments maintained their accreditation status, after undergoing their annual assessment by the South African National Accreditation System, SANAS. The Automotive department was accredited and awarded a certificate by SANAS in the product domain of light passenger and commercial vehicles, tyres and motorcycles helmets during the 2010/11 period. This resulted in a total of 11 technical signatories declared competent in line with the requirements of ISO17020.

3. 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:

Raids

The division carried out a total of four surprise raids across the regulated industry. Raids are surprise group inspections, targeting a specific area, product or industry, and involve leveraging the assistance of other government agencies such as SARS, municipalities and the South African Police Service (SAPS) as well as the media.

The raids were carried out in Polokwane, Bloemfontein, Gauteng and Durban. The division also participated in a SARS-organised raid in Machado. Large numbers of various non-compliant products totalling over 28 000 items were embargoed during the raids. The activities received substantial media coverage.

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 functions across the country. Different products with a market value of over R6 million were destroyed by the division.

The products destroyed included primarily paraffin stoves, electric heaters, audio visual equipment, plastic carrier bags, cigarette lighters, television sets, disinfectants and plugs and socket outlet adaptors.

International visits

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

Of note was the participation of the Acting Executive in benchmarking studies of other regulators in the USA, India and Brazil. One electrotechnical specialist was contracted

by the International Electrotechnical Commission System for Conformity testing and Certification of Electrotechnical Equipment and Components (IECEE CB Scheme) to conduct assessments on their behalf to confirm the competency of a laboratory in China for the standards covered by the compulsory specification on electrical and electronic apparatus.

The same specialist also represented South Africa at an International Electrotechnical Commission Technical Committee (IEC TC 61) to deliberate on the IEC 60335 series of standards for electrical and electronic apparatus.

Automotive staff conducted homologations in China, Australia and the United Kingdom.

A team from the CMM and Automotive departments, led by the CEO and the Acting Executive Manager of the NPPD, visited Thailand at the invitation of the government of that country. The Thai authorities wanted to understand the regulatory processes in South Africa pertaining to various automotive components and construction materials before launching their products in this country.

The Acting Executive Manager also attended the WP29 Meeting for Automotive in Geneva in March 2011. The CMM Manager and Electrotech Inspections Manager for Gauteng, attended a seminar on import and export commodity quality inspection in China from 6 to 27 April 2010.

Memorandums of Understanding (MOUs)

There were some significant developments with regards to MOUs with some key government agencies which will facilitate the operations of the NPPD. Chief among them was the initiation and drafting of MOU/As with SARS and with the International Trade Administration Commission (ITAC).

The MOA with ITAC, which has as its objective to promote the coordination and harmonisation of functions carried out by the two organisations with regards to the effective administration, control and monitoring of the importation of tyres, was signed on 5 November 2010. The MOU with SARS is expected to be signed early in the first quarter of the 2011/12 financial year.



Stakeholder engagements

The NPPD continued to engage various stakeholders including government departments, test houses, industry associations and individual manufacturers and importers. The division participated in numerous stakeholder meetings.

Each department held regular quarterly meetings with industry to share information and experiences as well as address concerns and queries. The division also gave a series of presentations to various industry sectors throughout the country on the new regulations in the NRCS Act.

Some of the more notable stakeholder engagements included at least 12 levy consultation meetings across the regulated industry, technical committee meetings at South African Bureau of Standards (SABS) forums, and meetings with the Department of Transport to resolve technical issues and consider technical regulation changes, amongst other things.

4. MAJOR CHALLENGES

The following is a synopsis of the major operational challenges encountered by the NPPD during the period under review.

- There remains a lack of accredited testing facilities for certain product areas. These product areas included motorcycle helmets, brake fluid and some electrical and electronic apparatus.
- The long turnaround times offered by many of the testing facilities resulted in some instances in the NRCS not being able to take action in a timely fashion.
- Budgetary constraints meant a delay in the appointment of specialist investigators that are needed for the SIU to start operational work.
- There still exists some confusion, especially in the Electrotechnical industry, about the admissibility of the SABS Mark as evidence of conformity for the application for the pre-market approvals of regulated products.
- The lack of memorandums of understanding with some key government agencies such as SARS and SAPS created operational constraints, for example in cases where the SAPS assistance was sought.

- The strength of the Rand over the period under review saw a flood of imports, many of which were non-compliant, especially paraffin stoves and various electrical and electronic components.
- Limited storage space for goods seized during inspections and raids as well as the risks associated with storing such consignments proved to be an on-going challenge.

5. GOING FORWARD

The NPPD is gearing for an increased scope of regulatory activities as new compulsory specifications being developed under the Industrial Policy Action Plan (IPAP) initiative are ushered in. These will include energy efficiency, solar water heaters and components of fixed electrical installations. The scope of the Electrotechnical department, in particular, is expected to grow significantly in the next few years.

Other new compulsory specifications which will be administered in the next financial year include compact fluorescent lamps (CFLs), preserved timber, pressurised paraffin stoves, safety footwear and category L vehicles (motor cycles).

The NPPD is currently developing a ports of entry enforcement strategy and this, together with a risk-based approach to regulation, is expected to bring in a fresh approach to our market surveillance activities in the near future.

The scope of accreditation will be expanded in all departments to cover all areas of regulatory activities and, in particular, to cover the new compulsory specifications promulgated from time to time.





Corporate Services Division



CORPORATE SERVICES DIVISION



Corporate Services is the administrative backbone of the NRCS, providing the following services to the rest of the organisation:

- Human resources, including training, skills development, employment equity and labour relations functions
- External and internal communication
- Occupational, Health and Safety (OHS)

Anjue Hirachund
Acting Executive: Corporate Services Division

At the beginning of the year under review the Corporate Services division was vastly under-staffed, particularly in the Human Resources department. However by the end of the year, the division was fully capacitated.

HUMAN RESOURCES

As a service organisation, the staff component of the NRCS is the main driving force of innovation, quality and sustained development. The human resource function in the NRCS is regarded as a strategic business partner contributing to the vision of the organisation.

Staff turnover

The NRCS has been fortunate in experiencing a low staff turnover of just over 8% during the past year. This can be attributed mainly to the restricted job market that characterises the current economic downswing.

Employees at start of period	295
Add:	
New staff	15
Less:	
Resignations	15
Deaths	1
Dismissals	1
Retirement	3
Termination of contract	3
Employees at end of period	287
Staff turnover	8%

Table 7: NRCS staff turnover

Due to financial constraints during the year, vacancies were frozen with the exception of certain critical positions, which accounted for the new staff appointments made in the 2010/11 financial year.

Skills development and retention

Even though twenty-two employees of the NRCS received bursaries to further their education in various fields, the organisation continues to face certain skills-related challenges in the form of Competency Development Programme (CDP) implementation.

Addressing this issue has been identified as a key issue for the year ahead. The next financial cycle will be marked by reinforcement of the Board’s vision of having “The right people in the right places”. The higher levels of growth and development will put pressure on the NRCS to become an employer of choice in the marketplace through high-potential talent management strategies and skills development opportunities for all employees.

At the end of the 2010/11 year, a decision was taken to re-grade all positions within the organisation. Parallel to this, a remuneration strategy is being developed to resolve the current disparities across levels within the organisation. In addition, a succession planning policy and procedure are being developed to ensure that there is robust talent contingency planning and that career development opportunities are put in place.

Together, these actions and strategies will play an integral part in retaining current staff and recruiting new people to

position the NRCS as an employer of choice and building a sound employee value proposition.

Even though training has always been a major area of focus at the NRCS due to the shortage of human capital in this field, the organisation fell behind in terms of meeting its training targets. However, a Training and Development Specialist joined the department at the beginning of the last quarter of 2010/11 and a turnaround is expected early in the new financial year.

Focus on leadership

The NRCS top management were subjected to a Leadership Assessment programme. These leaders received individual feedback and used their feedback to compile their individual development plans. Currently, all executive management are undergoing leadership development training. The plan is to roll out this process to other levels of management within the organisation.

Performance management

In line with the organisation’s goal of operating in a performance-based culture, performance assessments were done and performance bonuses were paid based on the individual scores achieved.

The principles used for staff and management:

Scores achieved	Performance bonus given
Performance less than 60%	No bonus
Performance rating 60% – 69%	3% of CTC
Performance rating 70% – 79%	5% of CTC
Performance rating 80% – 99%	10% of CTC

Table 8: Performance bonuses

Transformation

The NRCS continues to drive transformation as part of its strategic objectives. Since being established as an independent regulator in 2008, the organisation has set targets to improve its employee profile.

The highlight of the transformation process has been the establishment of the Employment Equity and Skills Development Forum. The challenge will now be to drive the strategy for target-setting in terms of race, gender and disability to bring the organisation’s employee profile more in line with the demographics of the country’s economically active population (EAP).

As part of the transformation agenda, the NRCS will continue with an affirmative action drive, the promotion of women and the focus on employment equity for people living with disabilities, not only because it is required of us by government, but because we believe that it is the right thing to do.

The following diagram reflects the performance against internal transformation targets

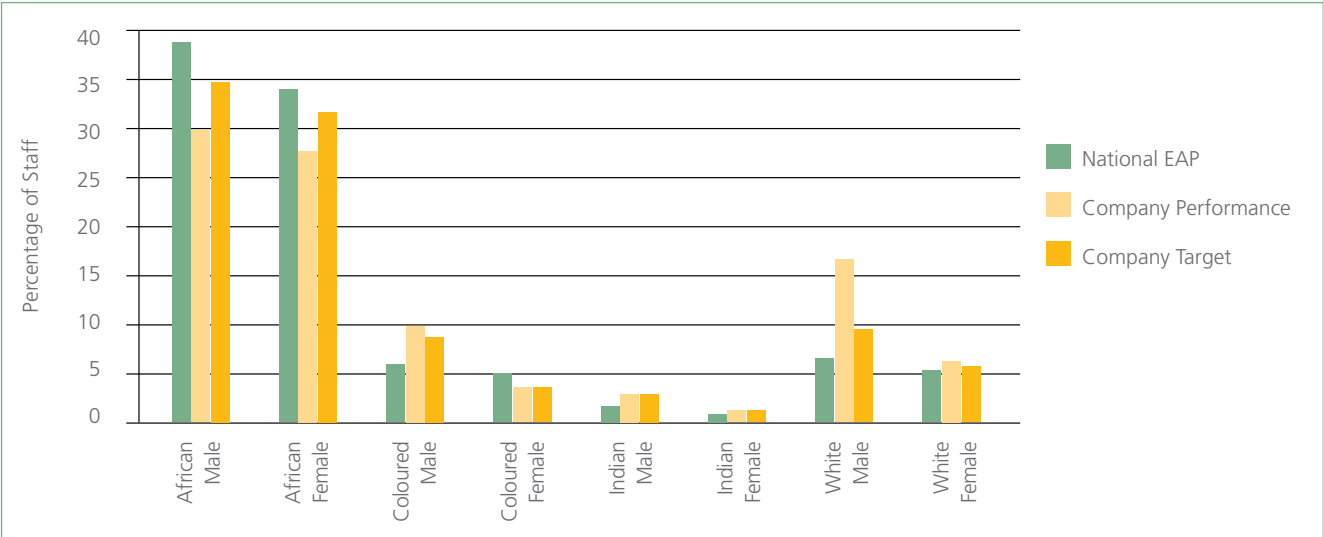


Figure 3: Company performance and target against National EAP

EMPLOYEE RELATIONS

Unfortunately, the past year was marred by industrial action which commenced on 28 October 2010 when Management and NEHAWU could not reach an agreement during wage negotiations. The strike ended on 16 November 2010 with an agreement of 8,7% wage increase for 2010 and other outstanding matters of mutual interest to be resolved with Management under the auspices of the CCMA.

The issue of whether or not the Tool of Trade allowance was included in the total Cost to Company package of employees, which was the major point of contention during the wage negotiations, was eventually referred for private arbitration in February 2011. On 22 March 2011, an award was given in favour of NEHAWU stating that the Tool of Trade allowance is not included in the package.

Even though NEHAWU is a recognised union within the organisation, relations were strained after the strike and the Tool of Trade arbitration. However, Management remains committed to building relations with staff and improving the lines of communication between management and staff.

OCCUPATIONAL HEALTH AND SAFETY

The NRCS supports a comprehensive health and wellness programme that provides occupational health services to staff and, with the assistance of Careways, provides an employee assistance programme and chronic disease management (including HIV and AIDS). In the past year, we have attempted to increase the awareness of employees in the following manner:

- Personal protection equipment (PPE) assessments and hazardous job identification were done in all departments;
- Health and safety meetings were conducted according to the OHS act;
- “Crisis on Call” first aid box training and massages were given to all staff;
- Training on e-learning referrals for managers was completed;
- Management referral training was done in Pretoria (by Careways);
- Risk assessment by SHIP was done in Pretoria;

- Krugersdorp employee assessment was conducted;
- Training on the safety, health and environment (SHE) policy was given to the Legal Metrology division;
- Wellness days for all regions were arranged to increase staff awareness;
- Safety audits on all departments and regional offices were completed;
- Health and safety tips were published in each NRCS newsletter.

COMMUNICATIONS AND MARKETING

The Communications department continued to play an integral role within the organisation. Communication activities contribute to the shaping of behavioural patterns of industry, consumers and other key stakeholders whilst assisting the NRCS in realising its mandate of fostering public safety, health and environmental protection and ensuring fair trade.

The organisation’s communication has contributed to fostering a more informed and active citizenry where industry and consumers play a role in the work of the Regulator by identifying and reporting non-compliant products to the organisation. Communication also plays a key role in influencing industry and encouraging compliance with requirements of compulsory specifications.

In less than three years since its establishment, the organisation through its Communications department has made significant inroads in the media which saw improved coverage of the NRCS and its programmes. The overall nature of the NRCS’s media coverage is positive, owing largely to the efforts of the department to constantly communicate with and via the media and respond promptly and factually to media queries.

The department managed to form partnerships with consumer affairs programmes such as Carte Blanche to educate and alert consumers about non-compliance in the market. To enhance and maintain these relations, the NRCS Communications department participated with **the dti** and other Council of Trade and Industry Institutions (COTTI) in hosting a media networking session where members of the

media were invited to interact informally with the Minister of Trade and Industry, Dr Rob Davies and Chief Executive Officers of these institutions.

Issues that dominated the media agenda during this financial year but also contributed to the profiling of the organisation included, among others:

- underweight bread;
- prawns which were laced with water to increase the price and sold to consumers;
- the injection of chicken which was in violation of the Legal Metrology Act;
- the conversion of panel vans and public transport emergency exits; and
- mercury levels in fish products.



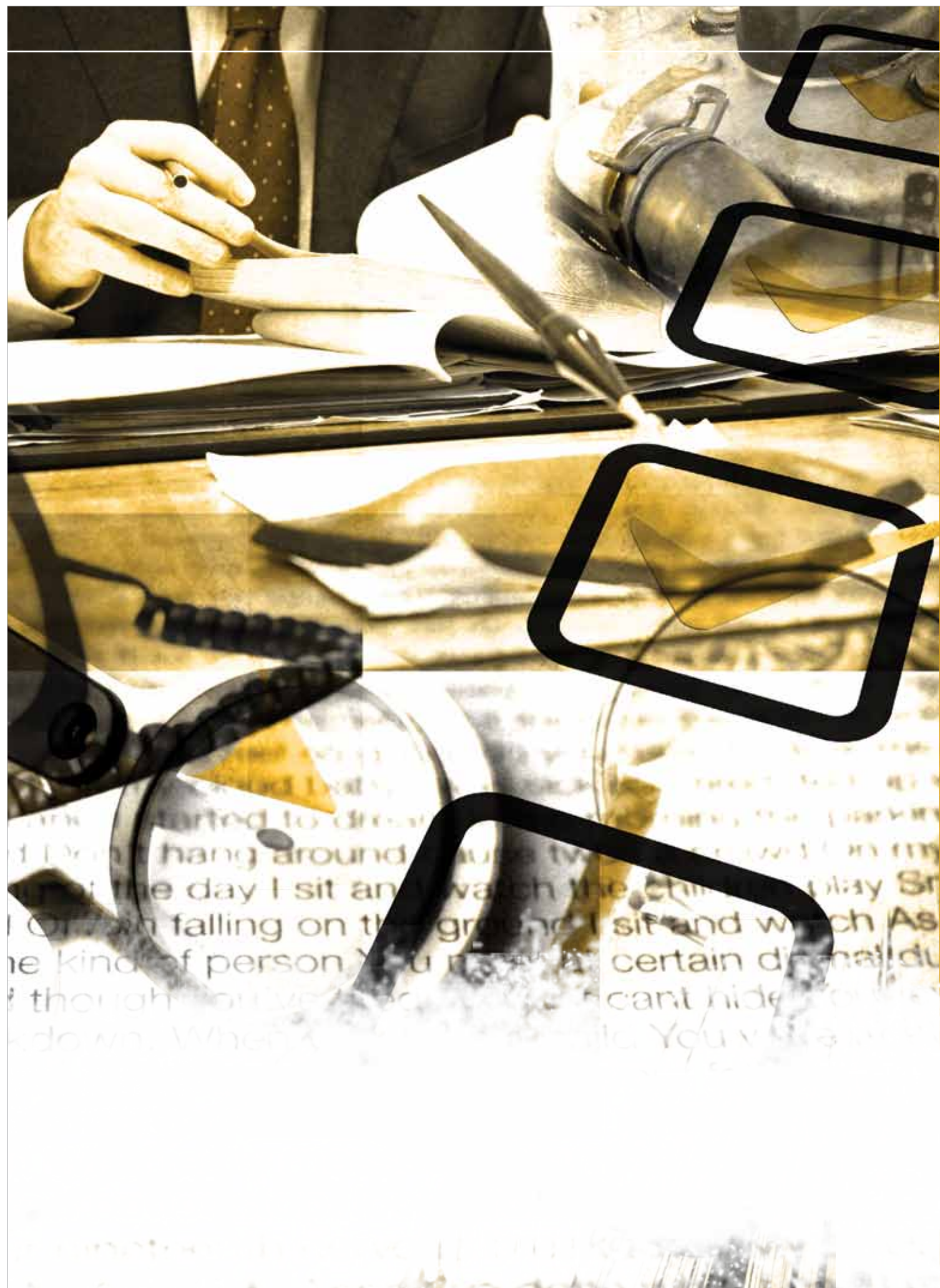
Consumers were also kept informed about the work of the Regulator through activities such as community meetings and relevant exhibitions which were held during the financial year to deepen consumer understanding of the Regulator and the significant role it plays in the South African society.

The department is also tasked with internal communication within the organisation. During the year under review, an online staff publication was launched to keep all staff across the NRCS informed about the programmes of the organisation. The department also uses communication channels such as the intranet, pop-ups, email and posters to keep staff informed of the latest developments within the organisation.

Information on the Regulator can be accessed by anyone on the website (www.nrccs.org.za) which is kept updated and relevant by the department.

Media coverage

The following are a selection of the articles published by various media about the organisation and its activities.



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 2011 duties, the Audit and Risk Committee ensured that a PFMA and Treasury Regulation compliant Board-approved Charter was in place with which the NRCS has complied.

We are pleased to present our report for the financial year ended 31 March 2011.

Composition of the Audit and Risk Committee

The Audit and Risk Committee that was in place for the year ended 31 March 2011 consisted of three non-executive members of the Board with an external member as chairperson. The Auditor-General was invited to attend all meetings. Two of three non-executive members of the Board and one external member constituted a quorum.

The members of the Audit and Risk Committee were:

Name	Membership	Term
Viran Magan	Independent Chairperson	Resigned 25/May/2010
Nick Nicholls	Independent Member-Independent Acting Chairperson	01/April/2010- 25/May/2010. 26/May/2010-31/March/2011.
Professor Perumal	Non-Executive Board Member	Full-Year
Nico Vermeulen	Non-Executive Board Member	Full-Year
Dora Ndaba	Non-Executive Board Member	Full-Year

Table 9: Audit and Risk Committee members

Terms of Reference

The Committee’s terms of reference are captured in a charter adopted by the committee and approved by the Board. According to the terms of reference, the Committee’s main responsibilities are to:

- Review any legal matters that could have a significant impact on the NRCS’s business;
- Review the adequacy of the insurance cover;
- Review risk philosophy, strategy, policies and processes recommended by the Executive Management, and monitor compliance with such policies;
- Identify key findings arising from the Auditor General and Internal Audit and satisfy itself that these are being properly followed up;
- Monitor and supervise the effective functioning of

- internal audit, and ensure that the roles and functions of external audit and internal audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of NRCS’s systems, including financial control and business risk management;
- Review accounting and audit concerns identified as a result of internal audits, and review the adequacy of corrective action taken by management in response; and
 - Review the financial statements and annual report, acting under the guidance of the external auditors, to ensure that disclosure is adequate and that fair presentation is achieved.

Meetings and review of activities

The Audit and Risk Committee met five times during the year ended 31 March 2011.

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

- The signing of a confidentiality agreement by all committee members;
- The adoption of the Audit and Risk Committee’s terms of reference;
- The approval of new and revised policies and procedures for the NRCS;
- Approval of the delegation of authority;
- The ‘Top 20 Risk’ report compiled by the Board and Executive Management’s response to it;
- The Materiality and Significance document, which the Committee discussed with the Auditor-General;
- A review of quarterly management accounts and performance reports;
- A review of Internal Audit Assignment findings, authorisation of the annual plan and a quarterly review of management response follow up to completion; and
- Authorisation of the Auditor-General plan and budget and review of their report findings, reporting our conclusion with comments to the Board.

PFMA Responsibilities

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

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

Evaluation of the Financial Statements

The Audit and Risk Committee has reviewed the unaudited financial statements of the NRCS for the year ended 31 March 2011. In conducting this evaluation, the Committee discussed the financial statements with the Auditor-General and the accounting authority and discussed the Auditor-General’s management and audit report. The Committee recommended the adoption by the Board of the unaudited financial statements for audit by the Auditor-General.

Effectiveness of internal controls

The business environment of the organisation was severely disrupted by labour unrest and similar labour issues for a large part of the reporting year. The chairperson of the Board resigned and was replaced by an acting chairperson. The CEO and the Information Technology executive were suspended for a few months and the CFO for a substantial part of the reporting year. All were investigated with no malpractice findings.

The corporate executive Human Resources (HR) was suspended in January 2010 with three resignations in HR, which left one HR staff member from May to December 2010. A new HR corporate executive was appointed 1 April 2011.

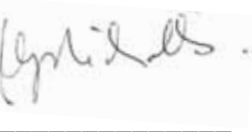
This disturbed environment resulted in poor governance and unacceptable control deficiencies being experienced during the reporting year.

Effectiveness of internal audit

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

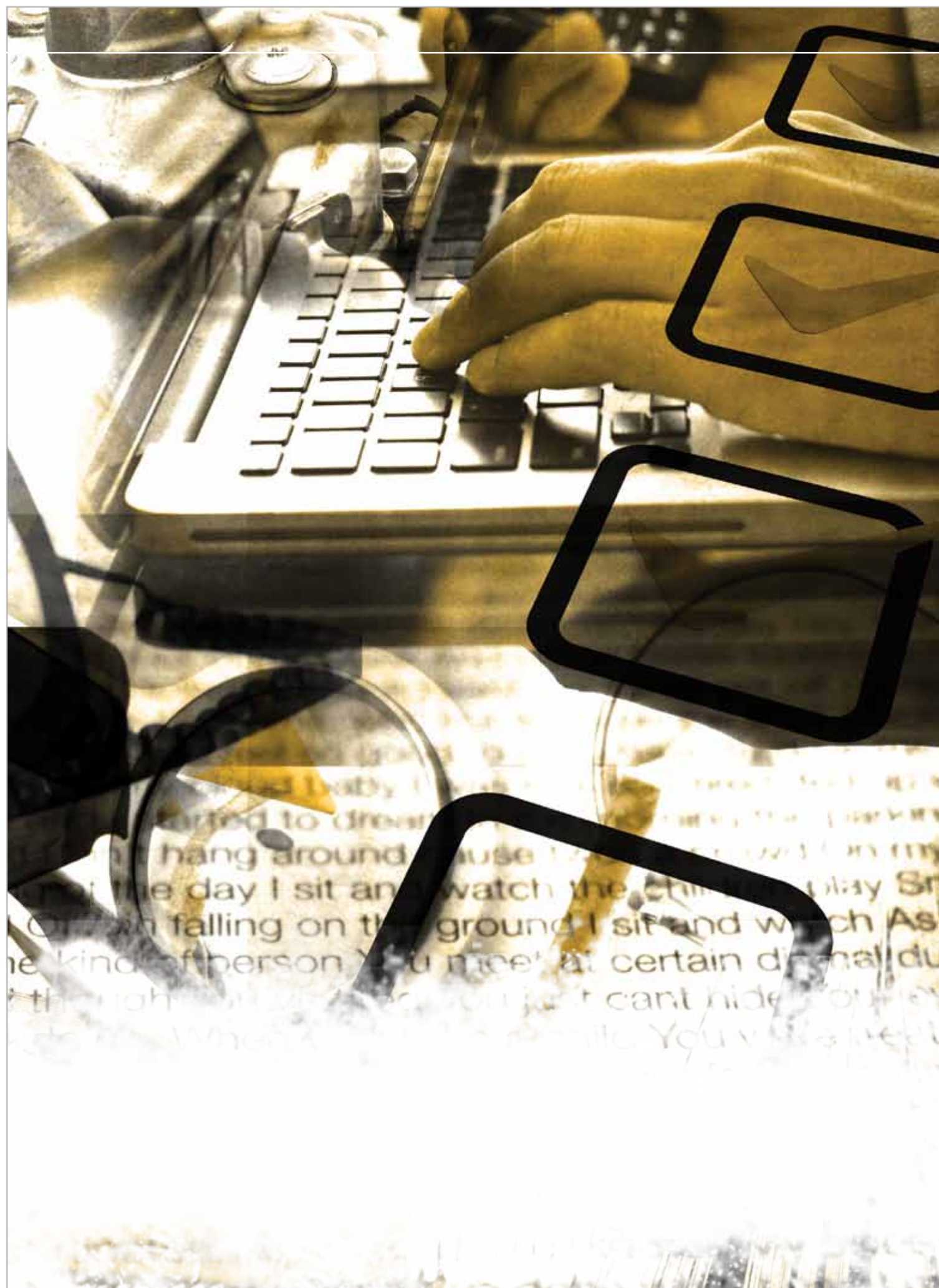
Appreciation

The Audit Committee expresses its sincere appreciation to the accounting authority, accounting officer, senior management team, internal audit team and the Auditor-General for their co-operation towards us achieving the requirements of our Charter as mandated.



RG Nicholls
Acting Chairperson of the Audit and Risk Committee

Report of the Accounting Authority



INTRODUCTION

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

As a public entity, the NRCS is guided by the Protocol on Good Corporate Governance as defined in the Public Finance Management Act No 1 of 1999 (PFMA). In managing its activities, the organisation strives to achieve transparency, accountability, efficiency and effective use of resources.

BOARD OF DIRECTORS

The Board of Directors of the NRCS is appointed in terms of the National Regulator for Compulsory Specifications Act. As the Accounting Authority, members of the Board have a responsibility to meet fiduciary duties as outlined in the PFMA, Treasury regulations and the Principles of King III.

The Board regards corporate governance as vitally important to the success of the organisations’ business and is unreservedly committed to apply the principles necessary to ensure that good governance is practiced in all business dealings.

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.

The Board acknowledges the need for ongoing independent assessment and monitoring to optimise its performance and as such, went through a performance assessment carried out by the Institute of Directors (IOD). It was found to be responsible and to have followed the NRCS’s policies and procedures and legislation governing the NRCS and in particular, good corporate governance.

The Board also engaged in a training exercise with their international counterparts and this has led to the signing of MOU’s with various international organisations for information sharing. The Board has had to learn from various players in an effort to create a world class Regulator.

Towards the end of the year, Ms Savannah Maziya resigned as Chairperson of the Board. Her resignation became effective on 22 March 2011. To ensure business continuity and sustainability, the Minister of Trade and Industry, Dr Rob Davies appointed Advocate Derick Block as acting Chairperson of the Board.

COMPOSITION OF THE BOARD

The NRCS Board currently consists of an executive director, being the Chief Executive Officer, and seven non-executive directors, all of whom are considered independent, and thus achieve the desired level of objectivity and independence in Board deliberations and decision-making processes.

The Board held 9 meetings in total during the year. Four were normal and five were special meetings.

Name of Member	Number of meetings attended
N Vermeulen	9
S Zikode	5
S Maziya	5
S.E Moolman	5
D Block	7
F.A Melato	7
S Perumal	9
D Ndaba	8
M Moeletsi	8

Table10: Board Meeting Attendance

BOARD COMMITTEES

The Board is responsible for determining the strategic direction of the organisation and oversight issues and to this end, has established sub-committees to deal decisively with all the governance issues. These are the Audit and Risk Committee, Technical Committee and the Remuneration Committee. The Board also approved the establishment of an Advisory Forum.

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

Subsequent to the resignation of Mr Viren Magan as Chairperson of the Audit and Risk Committee on 21 May 2010, Mr Rowan Nicholls took over and became the acting Chairperson of the Audit and Risk Committee.

The Audit and Risk Committee held five meetings during the year. The sixth meeting was meant to take place on 25 January 2011 but did not take place as there was no quorum.

The Committee scheduled six meetings but held five (see above) during the year, with attendance as follows:

Name of Member	Number of meetings attended
N Vermeulen	4
S Perumal	5
D Ndaba	5
N Nicholls	6

Table 11: Audit and Risk Committee Attendance

Technical Committee

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

The Committee is responsible for the following:

- Considering and advising the Board on the proposed compulsory specifications or proposed amendments to compulsory specifications in terms of section 13 of the National Regulator for Compulsory Specifications Act;
- 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 as well as proposed Regulations in terms of section 36 of the NRCS Act; and
- 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 E Moolman.

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

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

Name of Member	06 July 2010
N Vermeulen	3
F.A Melato	3
D Block	3
S.E Moolman	2

Table 12 Technical Committee Attendance

Remuneration Committee

The primary role of the Remuneration Committee is to assist the Board in discharging its responsibilities with regard to

matters related to remuneration and human resources. Among other things, it recommends remuneration and HR-related policies for approval by the Board.

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

Name of Member	12 May 10
D Ndaba	6
S Perumal	5
D Block	6
S.E Moolman	3

Table 13: Remuneration Committee Attendance

FINANCIAL PERFORMANCE

Revenue excluding government grants and interest amounted to R130.6 m (2010: R111.3 m). Of this, R100.5 m (2010: R82.5 m) was received from industry through levy payments and R30.1 m (2010: R28.8 m) through other services. Grants received from **the dti** amounted to R33.0 m compared to R35.9 m in the previous year.

An amount of R18.2 m related to other income is disclosed, predominantly from the settlement agreement with the SABs, compared to R9.9 m in 2010.

NUMBER OF EMPLOYEES

End of March 2011 EE Demographics						
Age spread	Black	Coloured	Indian	White	Total	Age Spread %
>27	7	1	2	1	11	3.8%
27 - 34	94	14	8	3	119	41.5%
35 - 46	51	19	2	19	91	31.7%
47 - 58	13	8	0	25	46	16.0%
59 - 67	1	1	0	18	20	7.0%
	58%	15%	4%	23%	287	

Table 14: Employee Demographics

Demographic representation				
Black	Coloured	Indian	White	Women
166	43	12	66	110
58%	15%	4%	23%	38%

A surplus of R25.6 m (2010: R6.7 m) was realised during the 12 months ended 31 March 2010. The cash at hand at the end of the year amounted to R42.3 m in comparison with R 30.6 m in the previous year.

EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

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 on its financial position.

MATERIALITY FRAMEWORK

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

PROPERTY, PLANT AND EQUIPMENT

The assessment of the useful life and residual value of property, plant and equipment was evaluated by management and adjustments were made, which are reflected in the financial statements. This will be assessed annually.

RISK MANAGEMENT

The NRCS endeavours to minimise risk by ensuring that appropriate systems, policies and controls are in place within the organisation. The organisation carried out a risk assessment exercise in April 2010 to identify risks that pose a challenge in meeting its key objectives as per the NRCS Strategic Plan. The top 20 risks were identified and managed.

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

INTERNAL AUDIT

The Internal Audit department functions in accordance with the Internal Audit Charter, approved by the NRCS Audit and Risk Committee. The Internal Audit department operates independently of Management, reporting functionally to the Audit and Risk Committee and administratively to the CEO. In terms of the Charter, Internal Audit is responsible for development and execution of the NRCS internal audit plans in order to provide assurance to management and the Audit and Risk Committee regarding systems of internal control, risk management and governance. When it conducts audits, Internal Audit follows its methodologies, based on the Institute of Internal Audit’s (IIA) International Standards for the Professional Practice of Internal Auditing and Treasury Regulation 27.2.6.

The risk-based Internal Audit Plan for 2010/2011 was developed in accordance with the IIA’s standards and the relevant Treasury Regulations. This plan was approved by the Audit and Risk Committee on 21 May 2010.

The department conducted 13 planned audits and 6 ad hoc assignments requested by management and the Audit and Risk Committee. Overall, the audit results indicated a satisfactory control environment. Where weaknesses or gaps were identified, management implemented or committed itself to implementing agreed actions to ensure improvement. During the year under review, the Internal Audit department fulfilled all its responsibilities as required by the PFMA and Treasury Regulations.

FRAUD PREVENTION

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

The Whistle Blower Policy, Fraud Policy and Fraud Prevention Plan were approved by the NRCS Board, to deal with all kinds of unethical behaviour.

GOING CONCERN


Management is satisfied that adequate resources exist to continue business for the foreseeable future and confirms that there is no reason to believe that the entity’s operations will not continue as a going concern in the year ahead.

BOARD APPROVAL

The Annual Financial Statements for the year ended 31 March 2011, set out from pages 73 to 117 have been approved by the Accounting Authority on 27 July 2011 and signed on their behalf by:

Advocate Derick Block
Acting Chairperson of the NRCS Board

Mr Moses Moeletsi
Chief Executive Officer



Performance Information Report 2010/11

PERFORMANCE INFORMATION REPORT 2010/11

1. STRATEGY GOALS - IMPLEMENTATION TARGET

Strategic Objective	Activity	Indicator	Target 2010/11	Actual Performance 2010/11	Comments and Reasons for Variance
1) Actively access and build new markets for maximum coverage	a. Conduct inspections	No. of inspections; per approved coverage plan, region, product, compulsory specification requirements Analysed product risks	52 940	57 572 Inspections conducted Automotive 4986 Chemical, Materials and Mechanical 6967 Electrotechnical 8414 Legal Metrology 6100 Foods and Associated industries 31105	The NRCS performed extremely well considering the industrial action by employees. However in terms of the target the organisation anticipated the world cup to disrupt business which did not turn up to be the case
	b. Identify and profile industry/sectors players	Comprehensive data-base	Database setup September 2010	Database set up is 87% complete.	The project was delayed due to the extension of scope
	c. Provide pre-market approvals	Number of days it takes to issue approvals and homologations	21 Days	99,87% (9642 applications out of 9655) were processed within 21 days from the day the application was received to the date the certificate was issued	
		Number of days type Approval	110	82,71% (110 applications out of 133) processed within 110 days from the date of application to the date the certificate was issued	This is considered an achievement considering the constraints within the Legal Metrology division. The variance is due to new instruments approved, difficulties encountered with the interpretation of evaluation requirements and lack of sufficient human resources
	d. Process new compulsory specifications and technical regulations	Advising the Board	100% of all requests	100% of the eight completed Compulsory Specifications requests reported to the NRCS Board	
	e. Maintenance of compulsory specifications and technical regulations	Number completed and advise the Board	8	6 new and 2 amended compulsory specifications approved by the Board	
	f. Establish distinctive mark	Application of the distinctive mark	Advise the board on application of the distinctive mark	Position paper on distinctive mark submitted to the Executive Committee for comments at the end of fourth quarter	Extensive research that needed to be conducted as it has an impact on the industry

Strategic Objective	Activity	Indicator	Target 2010/11	Actual Performance 2010/11	Comments and Reasons for Variance
2) Develop and improve enforcement of sanctions	a. Enforcement of sanctions (directives and embargos)	Sanctions imposed	Sanctions imposed within 72 hours	73% of the directives issued within 72 hours 100% of embargoes issued within 72 hours	All directives were issued but not within 72 hours. This was due to logistical problems between the discovery of non-compliance and the issuance of the CEO directive
	b. Develop a logistic capability	Logistics capability in place	Develop logistics capability policy	Undertaken logistics but the policy was not developed	The logistics needs are being addressed under the procurement policy
	c. Develop and implement policy and procedures supporting enforcement of sanctions	Policy in place	Completed and implemented procedure	Draft policy completed end of fourth quarter.	Need for extensive consultation with the industry and lack of human resources
3) Achieve and maintain accreditation to ensure quality control	Accreditation of the inspection and calibration functions within the NRCS	Achievement of ISO 17020 and ISO 17025 accreditation	Maintain and increase scope of accreditation	Accreditation maintained	
4) Enhance consumer education and public awareness	a. Implement consumer awareness programme	Level of consumer awareness	Implement consumer awareness program and conduct consumer awareness survey	Two community meetings were held in conjunction with the National Consumer Forum. 20 media interviews in various radio stations and TV were conducted to enhance consumer education and awareness. 10 media queries were responded to. Communications department facilitated participation of the NRCS in three major Exhibitions. Five presentations were made at Sancu meetings. Four raids events were held and profiled in the media. Four documentaries were shot and aired on the Carte Blanche actuality television programme.	
				Consumer Survey not conducted	Need to save financial resources
	b. Alerts for non-compliance confiscation and product recall where applicable	Alerts issued	100% of all applicable non compliance, confiscation and product recall	15 media alerts and statements were issued on all incidents of non-compliance, confiscations, product recalls and raids and destruction of non-compliant goods.	

Strategic Objective	Activity	Indicator	Target 2010/11	Actual Performance 2010/11	Comments and Reasons for Variance
5) Improve brand awareness and recognition	a. Develop and implement a marketing and communication strategy	Level of brand recognition	Implement marketing and communication strategy and conduct baseline survey	One advertorial was booked in the Leadership Magazine to profile the NRCS and its activities. Facilitated advertising in the mainstream media for three major projects. Procured corporate branding materials bearing the logo of the organisation. One media Networking Session was organised in conjunction with the dti . One press conference was arranged. Ensured accurate, current, comprehensive and accessible information on the website.	
				Baseline survey not conducted	Organisational decision to save financial resources
6) Optimise revenue generation, collection & protection	a. Create a register of all levy payers	Register compiled	Register compiled	Register of levy payers available and being updated	Registration of levy payers is currently underway Database set up to be completed by the end of April
	b. Auditing of levy payers	Number of audited companies	120	136	
	c. Structuring (including modelling) and board Submission of fees	Consultation and submission to the Board	Q3	Levies and fees submitted to the NRCS Board and the dti for gazetting.	
	d. Collection of fees	Fees collected within 90 days	75% collected within 90 days	87% of fees collected within 90 days	
	e. Review funding model	Approved model	End Q2	Funding model approved by the NRCS Board	

Strategic Objective	Activity	Indicator	Target 2010/11	Actual Performance 2010/11	Comments and Reasons for Variance
7) Aggressive skills attraction, development and retention	a. Develop and implement Competency Development Programme (CDP)	Implemented CDP	Complete development of Competence Development Program (CDP) and implement programmes	The framework for Competence Development programme was established. Consultants were contracted to develop modules for CDP implementation; HRD specialist appointed to assist with implementation.	Lack of human resources
	b. Develop and implement career progression programme	Implemented career programme	Complete development of career progression program and implement program	CDP Framework for Inspectors has been completed. CDP framework for other positions will be finalised in the next financial year	Lack of Human Resources capacity
	c. Develop and implement learnership programme	Implemented learnership programme	100% Implementation of the learnership program as per budgetary constraints	The learnership program is linked to the CDP, the framework of which has been established. NRCS is engaging with SETA to make progress on project plan	NRCS not accredited. Qualifications within NRCS not registered. Mentors and assessors not trained
	d. Develop employment equity plans	Developed and Implemented EE Plan	5% Professionals and maintain all other categories	Not achieved	Filling of positions were frozen for most of the financial year, due to insufficient funding
	e. Develop and implement recruitment strategy	Implementation of recruitment strategy	Develop and implement recruitment strategy	Recruitment strategy has been revised to be in line with HR strategy. Recruitment has been ongoing, hence strategy was implemented.	
8) Cultivate and leverage strategic relationships and interact with stakeholders	a. Develop and implement agreements with relevant strategic partners including SADC and African structures	Functioning agreements	Review 75% of current agreements and enter into 2 new agreements	Agreements reviewed and 2 new agreements signed with the: Thailand Department of fisheries and South African Institute of Architectural Technologists	
	b. Establish NRCS Advisory Forum.	NRCS Advisory Forum established and functioning	Establish Advisory Forum. End first quarter and thereafter bi-annual meetings	Advisory forum members appointed in the fourth quarter	
	c. Interact with stakeholders on a quarterly bases	Quarterly meeting held	Quarterly meetings	95 industry meetings conducted	

Strategic Objective	Activity	Indicator	Target 2010/11	Actual Performance 2010/11	Comments and Reasons for Variance
9) Ensure good corporate governance, Compliance, strengthen/ develop legal resources, ICT and risk management	a. Develop awareness of corporate governance policies	Awareness of Corporate governance	100% staff awareness of Corporate Governance	Staff awareness achieved through policy awareness workshops	
	b. Compliance to relevant legislation	Unqualified audit report	End Q1 close all previous audit findings	Audit findings and polices amended to effect the desired changes	
	Review risk policy and matrix.	Updated risk matrix	Update risk matrix quarterly	Risk matrix reviewed quarterly	
	c. Develop and implement ICT governance systems	ICT Governance in place	Develop ICT governance policies	Policies adopted	
10) Continuously improve on NRCS' research and development capacity	a. Scope, research and development mandate	a. Identify projects b. Identify partnerships with tertiary institutions, industry and research organizations	According to project plan	Research conducted for all compulsory specifications	Partnerships and further research not aligned to compulsory specifications could not be undertaken because of need to save financial resources



Report of the Auditor General

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the National Regulator for Compulsory Specifications, which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 75 to 116.

Accounting authority's responsibility for the financial statements

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 management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with *International Standards on Auditing and General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance

about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Regulator for Compulsory Specifications as at 31 March 2011, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and in terms of General Notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages 65 to 70 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

There are no material findings on the annual performance report.

Compliance with laws and regulations

Procurement and contract management

Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of Treasury Regulation 16A6.1, Treasury Regulation 16A6.4 and National Treasury Practice Notes 6 and 8 of 2007-08 issued in terms of section 76(4)(c) of the PFMA. This relates to multi-year contracts entered into in prior years, when the procurement policy adopted by the entity was not in line with the supply chain management prescripts determined by the National Treasury.

Expenditure management

The accounting authority did not take effective and appropriate steps in prior years to prevent irregular expenditure, as per the requirements of section 51(1)(b)(ii) of the PFMA.

INTERNAL CONTROL

In accordance with the PAA and in terms of General Notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

The internal procurement policies and procedures of the National Regulator for Compulsory Specifications were not previously aligned to the supply chain management prescripts determined by the National Treasury.

OTHER REPORTS

Investigations

An investigation was conducted by an independent consulting firm on request of the entity emanating from a whistle-blower report that a senior manager was suspected to have acted irregularly in the appointment of a service provider. Based on the conclusion of the report the correct procurement processes were followed.

Auditor-General

Pretoria
31 July 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Annual Financial Statements 2010/11

	Notes	2011 R	2010 R
Revenue	2	130 564 104	111 283 726
Levies for compulsory specifications (Non exchange transactions)		100 490 917	82 531 041
Services rendered from exchange transactions		30 073 187	28 752 685
Other income from non exchange transactions	3	18 234 349	9 922 530
		148 798 453	121 206 256
Expenditure		(156 858 559)	(150 848 396)
Advertising and marketing expenditure		(1 285 131)	(1 108 513)
Amortisation of intangible assets	11	(790 064)	(790 064)
Contract services	4	(8 743 651)	(9 208 839)
Depreciation	10 & 12	(3 110 488)	(2 783 975)
Employee benefit expenditure	5	(106 825 672)	(100 252 112)
Office rentals and other operating lease expenses	6	(11 310 639)	(11 726 860)
Tests and sampling		(5 557 872)	(5 657 833)
Travel expenditure		(7 494 031)	(7 272 940)
Other expenditure	7	(11 741 011)	(12 047 260)
Operating deficit before government grants and core funding		(8 060 106)	(29 642 140)
Government grants and core funding non exchange transactions	24.5	33 042 000	35 933 000
Operating surplus for the year		24 981 894	6 290 860
Interest received	8	1 021 336	911 943
Finance cost	9	(360 418)	(541 486)
Surplus for the year	28	25 642 812	6 661 317

	Notes	2011 R	2010 R
ASSETS			
Non-current assets		18 156 312	10 844 658
Property, plant and equipment	10	6 994 557	9 240 660
Intangible assets	11	2 844 676	1 281 998
Investment property	12	7 992 237	-
Deposits	13	324 842	322 000
Current assets		57 528 955	37 920 468
Trade and other receivables from exchange transactions	15	15 214 647	7 303 104
Cash and cash equivalents	16	42 314 308	30 617 364
Total assets		75 685 267	48 765 126
LIABILITIES			
Non-current liabilities		14 444 274	14 452 832
Interest bearing borrowings	17	107 274	1 605 673
Employment benefit obligations	18	14 337 000	12 847 159
Current liabilities		28 001 411	26 715 523
Trade and other payables from exchange transactions	20	25 259 848	24 095 348
Interest bearing borrowings	17	1 593 563	1 664 175
Employment benefit obligations	18	1 148 000	956 000
Total liabilities		42 445 685	41 168 355
NET ASSETS		33 239 582	7 596 771
REPRESENTED BY:			
Accumulated surpluses		33 239 583	7 596 771

	Accumulated surpluses R		Notes	2011 R	2010 R
Opening balance at 1 April 2009	935 454	Cash flows from operating activities		(21 591 584)	(24 088 920)
Surplus for the year	6 661 317	Cash received from customers		121 520 051	111 044 845
Accumulated surplus at 31 March 2010	7 596 771	Cash paid to suppliers and employees		(143 772 553)	(135 504 222)
Surplus for the year	25 642 812	Cash generated from operations	21	(22 252 502)	(24 459 377)
Accumulated surplus at 31 March 2011	33 239 583	Interest received		1 021 336	911 943
		Finance cost		(360 418)	(541 486)
		Cash flows from investing activities		(3 070 670)	(1 941 019)
		Purchase of property, plant and equipment	10	(715 086)	(1 879 292)
		Purchase of intangible assets	11	(2 352 742)	(51 727)
		Operating lease deposits paid	13	(2 842)	(10 000)
		Cash flows from financing activities		(1 682 802)	(1 427 731)
		Repayment of interest bearing borrowings		(1 682 802)	(1 427 731)
		Net decrease in cash and cash equivalents before external funding		(26 345 056)	(27 457 670)
		Cash received from government		33 042 000	35 933 000
		Cash received with operations transferred from SABS	24.1	5 000 000	5 000 000
		Net increase in cash and cash equivalents		11 696 944	13 475 330
		Cash and cash equivalents at beginning of the period		30 617 364	17 142 034
		Cash and cash equivalents at the end of the period	16	42 314 308	30 617 364

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 period, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

Accrual basis

In order to meet its objectives, the financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. The budget is also prepared on the accrual 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 preparation of annual financial statements in conformity with South African Statements of Generally Recognised Accounting Practice requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgements in applying the entity's accounting policies

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

Property, plant and equipment

The carrying amounts of property, plant and equipment are affected with the annual review of useful lives, current residual values and depreciation methods. Property, plant and equipment 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 16.

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 require a degree of estimation around the discount rates and periods used.

1. SIGNIFICANT ACCOUNTING POLICIES (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 test 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.

1. 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 certain 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.

1. 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 vesting portion of the long-term benefits is recognised and provided for at 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 benefits. The entity recognises termination benefits when the employment of 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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimated useful lives of the asset are reassessed periodically, with any changes in such accounting estimates being adjusted in the financial year of re-assessment 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 provision

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 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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation is charged to the statement of financial performance on a straight-line basis over the estimated useful life of the asset. Amortisation starts when the asset is ready for its 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
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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 asset, 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 assets 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 assets are included in the statement of financial performance.

1.7 Investment property

Investment property is property (land and building) 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 propeties 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 subsquently 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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 receivable 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.

Cash and cash equivalents

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

Cash and cash equivalents are classified as loans and receivables.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 transaction

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 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 transaction

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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)(l) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.16 Statements of GRAP issued, but not yet effective

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

The additional standards of GRAP are as follows:

		Effective date
GRAP 18	Segment Reporting	None announced
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)	1 April 2012
GRAP 24	Presentation of Budget Information in Financial Statements	1 April 2012
GRAP 25	Employee Benefits	None announced
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 103	Heritage Assets	1 April 2012
GRAP 104	Financial Instruments	None announced
IGRAP 2	Changes in existing decommissioning restoration and similar liabilities	1 April 2011
IGRAP 3	Determining whether an arrangement contains a lease	1 April 2011
IGRAP 4	Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds	1 April 2011
IGRAP 5	Applying the restatements approach under the standard of GRAP on financial reporting in hyperinflationary economies	1 April 2011
IGRAP 6	Loyalty programmes	1 April 2011
IGRAP 7	The limit on a defined benefit asset, minimum funding requirements and their interaction	None announced
IGRAP 8	Agreements for the construction of assets from exchange transactions	1 April 2011
IGRAP 9	Distribution of non-cash assets to owners	1 April 2011
IGRAP 10	Assets received from customers	1 April 2011
IGRAP 13	Operating lease incentives	1 April 2011
IGRAP 14	Evaluating the substance of transactions involving the legal form of a lease	1 April 2011
IGRAP 15	Revenue - Barter transactions involving advertising services	1 April 2011
IGRAP 18	Segment reporting	None announced

2. REVENUE

	2011 R	2010 R
Revenue from levies (Non exchange transactions)	100 490 917	82 531 041
Revenue from services rendered (Exchange transactions)	30 073 187	28 752 685
Tests and services	6 564 597	6 536 101
Export certification	4 818 978	4 994 185
Vehicle homologation	5 273 272	5 140 201
Letter of authority (LOA)	10 558 371	9 542 616
Transport annual registration fee, VIN and others.	1 517 640	1 038 515
Electrical compliance certificate	982 600	864 031
Gaming: Letter of compliance	357 729	637 036
	130 564 104	111 283 726

During 2011 certain income, classified under services rendered was reclassified as levies and the comparative amounts have been restated accordingly to the value of R 7 667 569.

3. OTHER INCOME FROM NON-EXCHANGE TRANSACTIONS

Surplus with property, plant and equipment recognised at fair value (transitional provisions: Directive 2)	52 763	312 808
Surplus on the capitalisation of fully depreciated property, plant and equipment transferred from SABS	-	50 231
Surplus on transfer of functions from SABS (Note 24.1)	17 894 102	9 550 403
- Fair value of assets transferred	13 000 000	5 000 000
- Fair value of non-exchange revenue	4 894 102	4 550 403
Other	284 512	5 868
Realised net foreign exchange profit	2 971	3 220
	18 234 349	9 922 530

The comparative amount for other income was disclosed for 2010 for more detail presentation.

4. CONTRACT SERVICES

Contract services comprises:

- Risk management and levy audits
- IT Services
- Accreditation
- Other contractual services

2011 R	2010 R
8 743 651	9 208 839
1 389 296	2 653 269
4 758 844	4 846 099
268 502	324 287
2 327 009	1 385 184

5. EMPLOYEE BENEFIT EXPENDITURE

Salaries and wages
Medical aid and other employment benefits
Pension costs
Training costs
Non Executive emoluments (Note 24.4)
Executive board and other key management emoluments (Note 24.4)
Post-employment healthcare benefits (Note 18)
Long service leave awards (Note 18)

82 894 092	76 137 452
5 278 438	5 056 963
6 607 367	6 087 343
1 281 574	2 250 275
653 384	548 642
8 428 976	8 000 378
105 143 830	98 081 053
762 549	1 096 672
919 293	1 074 387
106 825 672	100 252 112

6. OFFICE RENTALS AND OTHER OPERATING LEASE EXPENSES

Rentals in respect of operating leases (minimum lease payments)

- Land and buildings
- Vehicles
- Equipment

11 310 639	11 726 860
10 951 138	10 865 659
194 226	662 917
165 275	198 284

7. OTHER EXPENDITURE

Included in other expenditure is the following:

Auditors' remuneration - current year
Auditors' remuneration - prior year
Bad debts

- Bad debts written-off
- Provision for impairment

Legal costs
Loss on property, plant and equipment due to theft
Loss on derecognition of property, plant and equipment

2011 R	2010 R
1 152 607	1 178 876
701 250	870 358
903 094	503 880
229 416	22 652
673 678	481 228
2 728 437	2 037 030
17 167	106 083
7 848	-
1 021 336	911 943
1 295	1 579
359 123	539 907
360 418	541 486

8. INTEREST RECEIVED

Cash equivalents - financial assets at amortised cost

9. FINANCE COST

Other finance cost (Note 26)
Finance lease charges

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment	Laboratory equipment	Operating lease improvements	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	45 363	7 400	-	-	52 763
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)

10. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Property, plant and equipment with a gross carrying amount of R5 950 (2010: R114 531) were fully depreciated, but still in use on 31 March 2011.

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	
	2011 R	2010 R
Opening carrying amount	2 904 368	3 828 361
Correction in opening balance	11 998	-
Additions	113 790	667 446
Depreciation	(1 640 987)	(1 591 439)
Closing carrying amount	1 389 169	2 904 368

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

Details of the finance lease obligations are disclosed in note 17

11. INTANGIBLE ASSETS

Computer software - purchased

Opening carrying amount

Gross carrying amount

Accumulated amortisation

Additions - Internally generated

Amortisation

Closing carrying amount

Gross carrying amount

Accumulated amortisation

At year end an amount of R2 352 741 was capitalised for the development of Customer Relations Management solution which was not amortised. The project will be completed in 2011. The total outstanding amount to complete the development for the software is R2 201 568.

12. INVESTMENT PROPERTY

Carrying amount at the beginning of period

Additions resulting from transfer from SABS at fair value

Accumulated depreciation

Carrying amount at end of the year

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 24.1). 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 as disclosed in the financials was based on the 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 29 March 2011.

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.

	2011 R	2010 R
Computer software - purchased		
Opening carrying amount	1 281 998	2 020 335
Gross carrying amount	2 370 192	2 318 465
Accumulated amortisation	(1 088 194)	(298 130)
Additions - Internally generated	2 352 742	51 727
Amortisation	(790 064)	(790 064)
Closing 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)

13. DEPOSITS

Operating leases

Card Fleet Service

Municipalities

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

14. FINANCIAL ASSETS BY CATEGORY

Loans and receivables

Trade and other receivables

Cash and cash equivalents

	2011 R	2010 R
Operating leases	312 000	312 000
Card Fleet Service	10 000	10 000
Municipalities	2 842	-
324 842	322 000	

15. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables

Less: Adjustment to fair value on initial recognition

Trade receivables at amortised cost

Less: Impairment of trade receivables

Other receivables

NRCS does not hold any collateral as security. The fair value of trade and other receivables is equal to the invoice amounts related to these receivables.

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.

Impairment of trade and other receivables from exchange transactions:

Opening balance

Amounts received during the period

Amounts utilised - written off as bad debts

Increase in impairment provision

Closing balance

Trade receivables	16 094 405	7 926 833
Less: Adjustment to fair value on initial recognition	(360 594)	(168 484)
Trade receivables at amortised cost	15 733 811	7 758 349
Less: Impairment of trade receivables	(739 216)	(575 148)
	14 994 595	7 183 201
Other receivables	220 052	119 903
	15 214 647	7 303 104

Opening balance	575 148	93 920
Amounts received during the period	(277 682)	(56 586)
Amounts utilised - written off as bad debts	(233 092)	(11 200)
Increase in impairment provision	674 842	549 014
Closing balance	739 216	575 148

15. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

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 2011, 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
2011	16 094 405	6 890 270	1 892 332	286 653	5 548 132*	1 477 018
%	100%	43%	12%	2%	34%	9%
2010	7 926 833	4 160 531	1 159 242	658 120	58 957	1 889 983
%	100%	52%	15%	8%	1%	24%

* An amount of R4,9 million was received on 1 April 2011.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2011 R	2010 R
Bank balances	42 298 547	30 606 971
Cash on hand	15 761	10 393
Cash and cash equivalents as per cash flow statement	42 314 308	30 617 364

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.

17. INTEREST BEARING BORROWINGS

Finance lease liabilities - office equipment
Less: Current portion
Non-current portion

2011 R	2010 R
1 700 837	3 269 847
(1 593 563)	(1 664 174)
107 274	1 605 673

The finance lease liabilities for office equipment bear interest at a rate between 11% and 15,5% (2010: 13,0% and 15,5%). The liabilities are repayable in total monthly instalments of R168,633 (2010: R168 633) each. Lease periods vary between 6 and 36 months.

Finance leases comprise:

Total future minimum finance lease payments

- Payable not later than 1 year
- Payable between 1 year and not later than 5 years

Less: Unpaid future finance charges

Present value of future minimum finance lease payments

- Payable not later than 1 year
- Payable between 1 year and not later than 5 years

1 835 202	3 715 655
1 716 200	2 006 092
119 002	1 709 563
(134 428)	(445 808)
1 700 773	3 269 847
1 593 563	1 664 174
107 210	1 605 673

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 1 389 170 (2010: R2 904 369) (Refer to Note 10)

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
2011	R	R	R	R	R	R
Post-employment healthcare benefit	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
	<u>13 803 159</u>	<u>2 654 565</u>	<u>(972 723)</u>	<u>15 485 000</u>	<u>(1 148 000)</u>	<u>14 337 000</u>
	Opening balance	Provision made	Benefits paid / released	Closing balance	Current portion	Total non- current
2010	R	R	R	R	R	R
Post-employment healthcare benefit	5 200 780	1 112 938	(16 266)	6 297 452	(57 000)	6 240 452
Long service leave awards	6 431 320	1 842 387	(768 000)	7 505 707	(899 000)	6 606 707
	<u>11 632 100</u>	<u>2 955 325</u>	<u>(784 266)</u>	<u>13 803 159</u>	<u>(956 000)</u>	<u>12 847 159</u>

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 2011.

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 2011 were in the range of 6.01% per annum to 9.21% per annum (2010: 7.03% per annum to 9.01% per annum) with an average of 8.76% per annum (2010: 8.7% per annum) and a 20 year yield of 9.18% per annum (2010: 9.01% per annum). Yields on index linked government bonds are in the region of 3.0%. When compared to the yield on nominal government bonds this implies an inflation of approximately 6.4% (2010: 5.7%). 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 060 000 (2010: R6 297 452) per the valuation performed during March 2011.

18. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	2011 R	2010 R
Present value of funded obligations	7 060 000	6 297 452
Net liability per statement of financial position	<u>7 060 000</u>	<u>6 297 452</u>
The amount recognised in the statement of financial performance is determined as follows:		
Current service cost	204 000	203 106
Interest cost	582 272	462 832
Actuarial (profit) / loss	50 000	447 000
Less: benefits paid	(73 723)	(16 266)
	<u>762 549</u>	<u>1 096 672</u>

The fair value of plan assets amounted to R nil.

Sensitivity analysis

Below the effects on the central basis liability results for 2011 when the medical aid inflation rate is increased and decreased by 1% :

Changes to medical inflation	Liability R	Change in liability %
+1%	8 251 906	16,9%
Central	7 060 000	0,0%
-1%	6 085 088	-13,8%

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):

		2011	2010
Discount rate per annum	BESA curve	9,00%	8,75%
Salary inflation	CPIX + 1%	7,0%	6,75%

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 R8 425 000 (2010: R7 505 707) per the valuation performed during March 2011.

18. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	2011 R	2010 R
Present value of funded obligations	8 425 000	7 505 707
Net liability per statement of financial position	8 425 000	7 505 707

The amount recognised in the statement of financial performance is determined as follows:

Current service cost	917 000	819 335
Interest cost	617 293	514 052
Actuarial (profit) / loss	284 000	509 000
Less: benefits paid	(899 000)	(768 000)
	919 293	1 074 387

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%	9 001 413	6,8%
Central	8 425 000	0,0%
-1%	7 903 399	-6,2%

19. FINANCIAL LIABILITIES BY CATEGORY

Loans and payables

Trade and other payables	25 259 848	24 095 348
Interest bearing borrowings (Finance lease obligation)	1 700 837	3 269 847
	26 960 685	27 365 195

20. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	9 097 854	7 449 485
Other payables	900 111	209 018
Salary related accruals	4 903 329	4 713 545
Accumulated leave accrual	7 292 110	6 226 101
Trade receivables with credit balances and income received in advance	1 152 683	3 937 249
Deferred operating lease accrual - current portion	1 913 761	1 559 950
	25 259 848	24 095 348

20. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS (continued)

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. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of net surplus to cash generated from operations

Operating surplus / (deficit) for the period before government grants and core funding

Adjustments for non-cash items :

	2011 R	2010 R
Operating surplus / (deficit) for the period before government grants and core funding	(8 060 106)	(29 642 140)
Adjustments for non-cash items :	(6 543 101)	1 134 964
Surplus on transfer of functions from SABS	(17 894 102)	(9 550 404)
Fair value building rented from SABS	4 894 102	4 550 404
Depreciation on property, plant and equipment	3 102 725	2 783 975
Amortisation of intangible assets	790 064	790 064
Depreciation on Investment property	7 763	-
Bad debts written off	229 416	22 651
Settlement discount	(841)	(1 256)
Loss on property, plant and equipment due to theft	17 167	106 083
Loss on derecognition of property, plant and equipment	7 848	144 199
Profit on the capitalisation of full depreciated property, plant and equipment transferred from SABS	-	(50 231)
Property, plant and equipment recognised at fair value (transitional provisions: Directive 2)	(52 763)	(312 808)
Provision for employment benefit obligations	2 654 565	2 955 325
Employment benefits paid from provision	(972 723)	(784 266)
Increase in impairment of trade receivables	673 678	481 228

Operating surplus before working capital changes

Changes in working capital

Decrease / (Increase) in trade and other receivables	(8 814 637)	(216 231)
(Decrease) / Increase in trade and other payables	1 165 342	4 678 599
(Decrease) / Increase in income received in advance	-	(414 569)

Cash flows from operating activities before government grants and core funding

	2011 R	2010 R
Operating surplus before working capital changes	(14 603 207)	(28 507 176)
Changes in working capital	(7 649 295)	4 047 799
Decrease / (Increase) in trade and other receivables	(8 814 637)	(216 231)
(Decrease) / Increase in trade and other payables	1 165 342	4 678 599
(Decrease) / Increase in income received in advance	-	(414 569)
Cash flows from operating activities before government grants and core funding	(22 252 502)	(24 459 377)

22. COMMITMENTS

Capital commitments

Commitments for the acquisition of property, plant and equipment and Intangible assets (contracted)

2011 R	2010 R
3 226 939	4 554 310

Operating lease commitments - the company as lessee

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

Buildings

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

3 947 831	4 257 853
18 510 176	16 346 591
6 651 372	16 601 734

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

The entity entered into an operating lease agreement with one of its related parties of which the transaction was not at arms length (refer note 24.1)

23. FINANCIAL RISK MANAGEMENT

23.1 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 2011 and 31 March 2010.

23.2 Interest rate risk management

The entity is exposed to interest rate risk as it places funds in the current account at floating interest rates. Interest rate risk is managed through effective cash management. The net interest income at 31 March 2011 was R660 918 (2010: R370 456).

23. FINANCIAL RISK MANAGEMENT (continued)

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

	Floating rate	Floating rate
Cash and cash equivalents	42 314 308	30 617 364
% of total bank balances	100%	100%

If interest rates on 31 March 2011 had been 100 basis points (1%) lower (and all other variables remained constant), the surplus for the period would have been R422 985 (2010: R306 070) 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 R422 985 (2010: R306 070) lower.

If interest rates on 31 March 2010 had been 100 basis points (1%) higher (and all other variables remained constant), the surplus for the period would have been R422 985 (2010: R305 823) 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 R422 985 (2010: R305 823) higher.

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

23.3 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:

	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
2011					
Financial assets					
Trade and other receivables	9 747 527	4 069 526	1 174 761	222 833	15 214 647
Cash and cash equivalents	42 314 308	-	-	-	42 314 308
Other financial assets	-	-	-	324 842	324 842
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)	(265 594)	(1 195 172)	(107 274)	(1 700 837)

23. FINANCIAL RISK MANAGEMENT (continued)

23.3 Liquidity risk management (continued)

	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
2010					
Financial assets					
Trade and other receivables	3 334 181	3 158 765	810 158	-	7 303 104
Cash and cash equivalents	30 617 364	-	-	-	30 617 364
Other financial assets	-	-	-	322 000	322 000
Financial liabilities					
Trade and other payables	20 158 099	3 937 249	-	-	24 095 348
Interest bearing borrowings	138 681	277 363	1 248 131	1 605 673	3 269 848

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.

23.4 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 2011, 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.

23.5 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 2011 and 31 March 2010 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.

24. RELATED PARTY TRANSACTIONS

24.1 Transfer of functions from related party

On 1 September 2008 the NRCS and the SABS became separate entities. The settlement agreement as captured in the Memorandum of Understanding was finalised in April 2010. The impact of the agreement in the current financial year is free rental of the premises, parking bay's at no cost, the receipt of R 5 million cash and the transfer of the PE property of R8 million.

Future impact of the settlement is the rental of the property at 50% of the rental cost for a further 3 years ending on 31 March 2014. The parking bays will be charged at a nominal rate up to 31 March 2014.

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

	Notes	2011 R	2010 R
Assets transferred at fair value		13 000 000	5 000 000
Cash & cash equivalent		5 000 000	5 000 000
Investment property	12	8 000 000	-
Fair value of non-exchange transaction		4 894 102	4 550 404
Nett assets transferred		17 894 102	9 550 404

24.2 Purchases from related parties

	Purchases R	Impairment of debt R	Bad debt written off R	Balance outstanding R
2011				
National government business enterprises				
SA Bureau of Standards	9 107 995	-	-	2 517 714
2010				
National government business enterprises				
SA Bureau of Standards	8 721 345	-	-	3 657 087

24.3 Sales to related parties

	Sales R	Impairment of debt R	Bad debt written off R	Balance outstanding R
2011				
Major public entities				
SA Bureau of Standards	50 484	-	-	11 990
2010				
SA Bureau of Standards	69 822	-	-	50 055

Levies and other receipts to the value of R317 000 (2010: R2.5 million) were collected and paid by SABS to the NRCS.

24. RELATED PARTY TRANSACTIONS (continued)

24.4 Key management personnel compensation

The following emoluments were paid to the Board Members:

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

1. Resignation: 4 March 2011.
2. Resignation: 21 May 2010.

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

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

24. RELATED PARTY TRANSACTIONS (continued)

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

	Notes	Basic Salary	Performance payments	Retirement and medical aid	Other allowances	Total
2011		R	R	R	R	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
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 attended EXCO meetings from 31 August 2010
3. Not considered as key management due to suspension

24. RELATED PARTY TRANSACTIONS (continued)

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

1. Appointed 1 July 2009, resigned 31 December 2009

24.5 Government grants and core funding	Received from Department of Trade and Industry	2011	2010
		R	R
		33 042 000	35 933 000

25. CONTINGENT LIABILITIES

The SABS provided guarantees to AVIS for employees that were transferred to the NRCS on 1 September 2008. At 31 March 2010 14 employees (2010: 13) are active in the above scheme with an outstanding amount of R865 517 (2010: R1 155 322). 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 during the current period. The retention of current year surplus has not been approved.

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

NEHAWU took the NRCS to arbitration to establish if the tool of trade allowance is included in the cost to company received by inspectors. The award was made in favor of the employees on 22 March 2011 and implemented from March 2011. However, the impact from 1 September 2009, the date when the salaries were evaluated, is uncertain at the date of the report. The possible impact of the employees claim could be R 13 million.

26. FRUITLESS AND WASTEFUL EXPENDITURE

	2011 R	2010 R
26.1 Fruitless and wasteful expenditure for the period	1 515	1 934
Consists of interest on late payments.		
26.2 LOSSES THROUGH CRIMINAL CONDUCT		
Computer equipment stolen derecognised at carrying value.	17 167	106 083
Individual lap top computers stolen to be the subject of insurance claims.		

27. 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 R2 368 200 (2010: R5 550 683). 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.

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.

28. BUDGET COMPARED TO THE STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2011 R Actual	2011 R Budget
Revenue		130 564 104	116 669 381
Levies for compulsory specifications	28.1	100 490 917	84 419 909
Services rendered	28.1	30 073 187	32 249 472
Other income	28.3	18 234 349	25 047 451
		148 798 453	141 716 832
Expenditure		(156 858 559)	(168 858 832)
Advertising and marketing expenditure		(1 285 131)	(2 635 427)
Amortisation of intangible assets	28.5	(790 064)	(772 800)
Contract services	28.4	(8 743 651)	(8 122 349)
Depreciation	28.5	(3 110 488)	(4 017 128)
Employee benefit expenditure	28.8	(106 825 672)	(109 756 353)
Office rentals and other operating lease expenses		(11 310 639)	(11 570 701)
Tests and sampling		(5 557 872)	(6 347 064)
Travel expenditure	28.8	(7 494 031)	(9 286 476)
Other expenditure	28.6	(11 741 011)	(16 350 534)
Operating deficit before government grants and core funding		(8 060 106)	(27 142 000)
Government grants and core funding	28.2	33 042 000	27 142 000
Operating surplus for the period		24 981 894	-
Interest received	28.7	1 021 336	-
Finance cost	28.5	(360 418)	-
Surplus for the period		25 642 812	-

28. BUDGET COMPARED TO THE STATEMENT OF FINANCIAL PERFORMANCE (continued)

Budget exceeding actual amounts - material variances disclosed

- 28.1 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. Services rendered was below budget partially due to the strong rand which put pressure on exports in the Foods industry, and partially due to an overstimation of income at the time of the budget.
- 28.2 The government provided additional funding to the value of R5.9 million on 31 March 2011.
- 28.3 The NRCS budgeted for a deficit but due to this not been allowed by the PFMA, the deficit was balanced by including the same amount in other income to submit a zero surplus / deficit. The saving achieved to ensure funding was through cost savings.
- 28.4 Contract services included commission paid to the levy auditor not budgeted for.
- 28.5 Depreciation was less than budget due to the reduction of capital expenditure as well as the delay in the implementation of the CRM system.
- 28.6 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.
- 28.7 Interest revenue was not budgeted for.
- 28.8 Staff and travel cost came in under budget due to management's decision to reduce travel and not to fill vacancies in some of the business units. Staff that participated in industrial action was not paid to implement the no work no pay principle.

29. EVENTS AFTER REPORTING DATE

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

30. SOCCER WORLD CUP 2010

No expenses were incurred with regard to the Soccer World Cup held in South Africa for the year (2010 R -)

31. APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements were approved by the NRCS Accounting Authority and submitted for issue on 27 July 2011.

Abbreviation	Full Title
AFRIMETS	Intra-Africa Metrology System
BCO	Building Control Officer
CAC	Codex Alimentarius Commission
CCAFRICA	Codex Committee for Africa
CFLs	compact fluorescent lamps
CIML	International Committee for Legal Metrology
CMM	Chemical, Mechanical and Materials Department
COMESA	Common Market for Eastern and Southern Africa
COTII	Council of Trade and Industry Institutions
CPA	Consumer Protection Act
DoT	Department of Transport
EAC	East African Community
EU	European Union
GTR	Global Technical Regulation
IEC	International Electrotechnical Commission
IECEE CB	IEC System for Conformity testing and Certification of Electrotechnical Equipment and Components
IPAP	Industrial Policy Action Plan
ISO	International Standards Organization
ITAC	International Trade Administration Commission
IUFost	International Union of Food Science and Technology
KPA	Key performance area
KPI	Key performance indicator
LA	Local Authority
LOA	Letter of authority
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
NBR	National Building Regulations
NBRBS	National Building Regulations and Building Standards
NEDLAC	National Economic Development and Labour Council

Abbreviation	Full Title
NPPD	Non Perishable Products Division
NRCS	National Regulator for Compulsory Specifications
OECD	Organization for Economic Cooperation and Development
OIML	International Organisation of Legal Metrology
PFMA	Public Finance Management Act
QMS	Quality Management System
RR&D	Regulatory Research and Development
SAAFoST	South African Association for Food Science and Technology
SABS	South African Bureau of Standards
SADC	South African Development Community
SADCMEL	SADC Co-operation in Legal Metrology
SAIAT	South African Institute of Architectural Technologists
SALGA	South African Local Government Association
SANAS	South African National Accreditation System
SANCU	South African National Consumer Union
SANS	South African National Standard
SAPOA	South African Property Owners Association
SAPS	South African Police Service
SARS	South African Revenue Services
SDC	Swiss Development Corporation
SIU	Special Investigations Unit
SLA	Service level agreement
SQAM	Standards, Quality, Accreditation and Metrology
TBT	Technical Barriers to Trade
the dti	The Department of Trade and Industry
TR	Technical regulation
WP29	Working Party 29
WTO	World Trade Organisation

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