ANNUAL REPORT 2012 2013

NRCS national regulator for compulsory specifications

The National Regulator for Compulsory Specifications (NRCS) is a Schedule 3A Public Entity under the jurisduction of the Department of Trade and Industry

Dr Rob Davies (MP)
Honorable Trade and Industry Minister

Mr Lionel October
Trade and Industry Director-General

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Schedule 3A Public Entity, in terms of the PFMA
Nature of business and principal activities	The NRCS regulates products manufactured, imported or sold to ensure that they meet minimum safety, health and fair trade requirements
Board Members	J Molobela (Chairperson) FA Melato SE Moolman DN Ndaba Prof. S Perumal P Serote NMW Vermeulen S Zikode (representative of **the dti**) A Moodley (CEO)
Business address	SABS Campus No 1 Dr Lategan Road Groenkloof Pretoria South Africa
Postal address	Private Bag x25 Brooklyn 0075
Controlling entity	The Executive Authority for the NRCS is the Minister of Trade and Industry
Bankers	ABSA Bank
Auditors	Auditor-General South Africa
Secretary	Letitia Kelly, OMA Chartered Accountants

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Overview

Background to the NRCS

The National Regulator for Compulsory Specifications (NRCS) was established on 1 September 2008 in terms of the National Regulator for Compulsory Specifications Act (NRCS Act), 2008 (Act No. 5 of 2008). It emerged as an independent organisation from the original Regulatory division of the South African Bureau of Standards and is defined as a section 3(a) organisation under the Public Finance Management Act (PFMA), 1999 (Act No. 29 of 1999)

The NRCS is primarily responsible for the administration of three acts that reside under its jurisdiction, namely the NRCS Act, the Trade Metrology Act, 1973 (Act No. 77 of 1973) and the National Building Regulations and Building Standards Act, 1977 (Act No. 103 of 1977). The NRCS also administers regulations that fall under the jurisdiction of other government departments in terms of agreements reached with the respective departments.

The NRCS recently changed its organisational structure and is structured into divisions and functional units arranged around specific areas of accountability.

These functional units are as follows:

- Regulatory Research and Development
- Automotive
- Electrotechnical
- Food and Associated Industries
- Chemical, Mechanical and Materials
- Legal Metrology
- Corporate Services

NRCS mission

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

NRCS vision

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

Legislative frameworks

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

- The National Regulator for Compulsory Specifications Act
- Trade Metrology Act
- National Building Regulations and Building Standards Act

As a section 3(a) public entity under the jurisduction of **the dti**, its strategic objectives are as follows:

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

STRATEGIC OUTCOME-ORIENTATED GOALS

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

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Report of the Chairperson

Mr Jeff Molobela

The Board and management of the NRCS have developed a three-year (2013–2016) annual performance plan, as well as a five-year (2012–2017) strategic plan. Both these documents are aligned to a number of strategic documents of government. These include the National Development Plan (NDP), as well as various policies and action planning frameworks of the Department of Trade and Industry (**the dti**), such as the South African Trade Policy and Strategy Framework, and the Industrial Policy Action Plan (IPAP).

The NRCS's Strategic Plan will give direction to the activities of the organisation to ensure that its specific deliverables are achieved in a manner that is consistent with NRCS's mandate, which involves undertaking surveillance inspections and approvals, and – where necessary – implementing sanctions.

The following activities are undertaken to assist the NRCS in its endeavour to be more efficient and effective:

- Manufactured and imported goods are inspected at source, where possible
- Memoranda of understanding (MoUs) and technical agreements with other international governmental and treaty organisations are concluded where necessary
- Regular awareness interventions are embarked upon where necessary
- Sanctions are instituted where non-compliances are found

The NRCS's Strategic Plan intends to achieve the following:

- Enhance the quality of life of all South African citizens by ensuring their health and safety, as well as by protecting the environment and maintaining fair trade
- Support the economy by strengthening existing markets and opening up new markets through exports
- Lock out the import of products that do not comply with compulsory specifications

The NRCS's strategic goals are as follows:

- Utilise the risk-based approach to maximise compliance with all specifications and technical regulations falling under the mandate of the NRCS
- Optimise the scope of the NRCS's regulatory activity to protect the people of South Africa and the environment
- Inform and educate industry and consumers regarding their rights and obligations with regard to specifications and technical regulations
- Ensure that committed, competent people are in the right place at the right time to enable the effective execution of the NRCS's strategy
- Ensure that the NRCS is a capacitated organisation with "fit-for-purpose" resources that are available to support decision-making and action

These strategic goals support the intention to position the NRCS as a leader in the regulatory domain by becoming the preferred regulatory agency in South Africa, in the South African Development Community (SADC) region, in Africa and in the world. As such, it continuously considers and reviews the need for new or amended technical regulations and compulsory specifications to improve its delivery on its mandate. A number of such regulations and specifications were recommended by the Board during the year under review.

The NRCS's Strategic Plan will give direction to the activities of the organisation to ensure that its specific deliverables are achieved in a manner that is consistent with NRCS's mandate, which involves undertaking surveillance inspections and approvals, and – where necessary – implementing sanctions.

The development of a Competency Development Programme to ensure the retention of skills and to identify future needs will strengthen the NRCS's national, regional and international positioning. The transfer of knowledge has been identified as a priority and will be reviewed to improve the transfer of skills.

The NRCS's national, regional and international positioning is also strengthened through its involvement in the following forums:

- SADC Cooperation in Legal Metrology (SADCMEL)
- SADC Technical Barriers to Trade Steering Committee (SADCTBTSC)
- SADC Automotive Forum
- The Intra-Africa Metrology System (AFRIMETS)
- International Organisation of Legal Metrology (OIML)
- Codex Alimentarius Commission (the international food standards organisation)
- United Nations Economic Commission for Europe (UNECE) Working Party for the Harmonisation of Vehicle Regulations (WP.29)
- UNECE Working Party on Regulatory Cooperation and Standardisation Policies (WP.6)

Its involvement in these forums is based on the needs of South Africa, **the dti**, industry and the consumer, and encompasses participation in the annual meetings of these forums as South African representative, involvement in the work of the technical committees by prioritising input into the development of international ideal technical regulations and hosting technical committee meetings, and participating in treaty organisations at a high level.

The development of a Competency Development Programme to ensure the retention of skills and to identify future needs will strengthen the NRCS's national, regional and international positioning. The transfer of knowledge has been identified as a priority and will be reviewed to improve the transfer of skills.

With a view to capacitating the organisation, the Minister of Trade and Industry has confirmed the appointment of the Board members: the Chairman of the Board and a new member, as well as the new Chief Executive Officer (CEO). These appointments will take effect from 1 June 2013 and will enable the organisation to embark on the filling of all its strategic positions to support the fulfilling of its mandate.

This report provides a detailed overview of the activities and overall performance of the NRCS for the year ended 31 March 2013.

Mr Jeff Molobela
Chairperson of the NRCS Board

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Report of the Chief Executive Officer

Mr Asogan Moodley

The year 2012/13 was once again characterised by many challenges, ranging from disruptions emanating from labour disputes and continued loss of scarce skills to financial challenges that adversely affected the overall performance of the organisation. Despite these challenges, the NRCS – as an organisation – is determined to live up to its vision of a safe, competitive and prosperous South Africa, in which it will collaborate with its partners to promote environmental sustainability and to contribute to world-class technical infrastructure.

The NRCS Board approved the new organisational structure in alignment with the organisation's strategic objectives. This resulted in the renaming of some of the divisions.

The environment within which South Africa trades and the NRCS operates has been characterised by rapid and fundamental change. The rapid globalisation experienced over the past decade has created an open, fluid market with the fast movement of an increasing variety of goods from various sources of origin and of increasing technological complexity. The global manufacturing base, as indicated in the previous financial year, continues on the trend of migration from the West to the East, dramatically changing the traditional sources of products. This has contributed to the increased scale of regulatory challenges facing the NRCS.

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

In response to the fact that regulatory practice is far from harmonised, the NRCS has had to reconfigure the way it conducts its business, inter alia, by moving towards deploying more of its people at the ports of entry so that it can intercept non-compliant products before they enter the local markets, and forming partnerships with organisations such as the South African Revenue Service (SARS) and the South African Police Service (SAPS).

In response to the fact that regulatory practice is far from harmonised, the NRCS has had to reconfigure the way it conducts its business, inter alia, by moving towards deploying more of its people at the ports of entry so that it can intercept non-compliant products before they enter the local markets.

The implementation of the risk-based approach has started to give effect to the "lock-in, lock-out principle" as part of the Industrial Policy Action Plan (IPAP 2). Furthermore, the NRCS has developed and is implementing a border enforcement strategy.

The unpacking of the National Building Regulations and Building Act, specifically with regard to the responsibilities of the different role-players, has commenced, and cooperation with other relevant stakeholders will be part of the process going forward.

The organisation's Foods and Associated Industries Division inspected all declared fishery and associated products for compliance. In respect of non-perishable products, the Chemicals, Mechanicals and Materials Division undertook 4 314 inspections, which represents an achievement of 7.9% over the planned target. The Electrotechnical Division undertook 4 326 inspections, representing an achievement of 8.2% over the planned target, while the Automotive Division undertook 4 465 inspections, which represented an achievement of 11.6% over the planned target.

The Legal Metrology Division received 223 new applications for type approval from instrument manufacturers and suppliers and issued 247 certificates of approval. Due to insufficient funding, industrial action and reduced resources, 4 056 market surveillance inspections were conducted. This is 7% under the planned target for the year. The significant downward trend of 5.4% in non-compliant goods on the market can be attributed to continued inspections in the area of pre-packaged goods. The saving to consumers through the removal of non-compliant pre-packed goods from the market and the correction of non-compliances is estimated at R41 million. This is a substantial amount if one takes into consideration that approximately 20% of the market is covered. If it had been possible for the Legal Metrology Division to cover 100% of the market, the extrapolated cost saving to consumers could have exceeded R204 million.

the dti and other stakeholders engaged extensively with the National Building Regulations and Building Standards Act, with a view to embarking on a review of the NRCS's role in the enforcement this act.

The NRCS's revenue for the year, excluding government grants and interest, amounted to R172 million (2012: R159 million).

The Board and management of the NRCS attach great value to the organisation's principal asset – its staff, through which the organisation renders its service to the nation. As indicated in the previous report, management is working with the union and is seeking staff views in the process of creating a conducive working environment. The training and development function is also receiving attention to reduce capacity constraints. The operating divisions are undertaking business improvement and capacity-building processes to identify medium- to long-term needs. This initiative will strengthen the Regulator's footprint and coverage in areas of strategic importance.

The NRCS is rightly proud of the role it plays in preserving the safety of South African consumers against potentially hazardous non-compliant goods and ensuring that they receive fair value for their outlay.

National agreements with other government entities have been initiated to assist the NRCS in meeting its strategic objectives. Existing agreements are being reviewed to address challenges in the implementation process and to give effect to the effective implementation of the NRCS's mandate.

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

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

Mr Asogan Moodley
Chief Executive Officer of NRCS

Board Members


Mr Jeff Molobela
Chairperson of the Board


Ms Elizabeth (Lillibeth) Moolman
Board Member


Mr Sipho Zikode
Board dti Member


Ms Dora Ndaba
Board Member


Ms Funzani Asnath Melato
Board Member

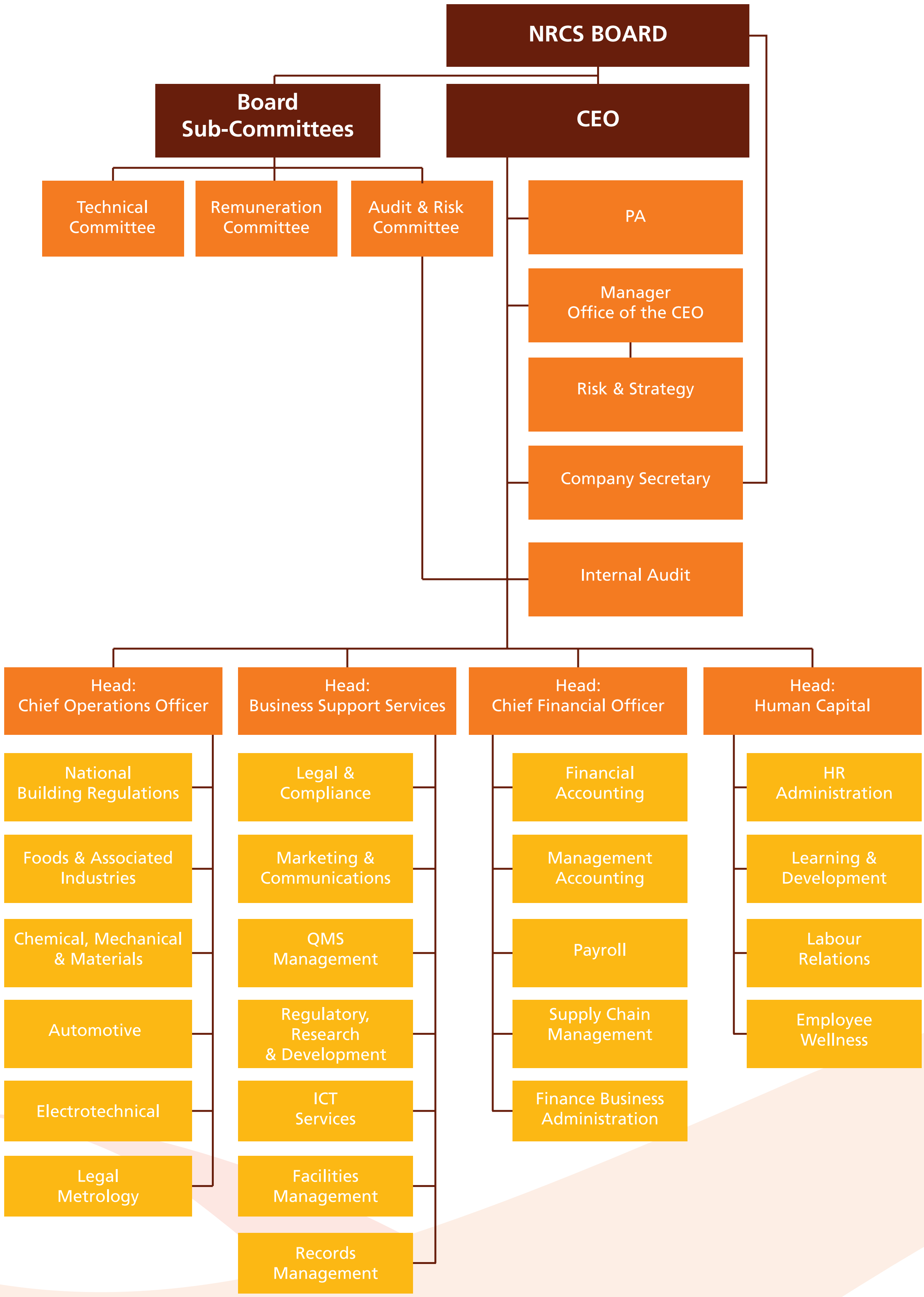

Mr Nico MW Vermeulen
Board Member


Mr Paul Serote
Board Member


Prof Sadhasivan Perumal
Board Member


Mr Asogan Moodley
CEO of NRCS

NRCS Organisational Structure



04

Legal Metrology Division

Introduction

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

The division achieves this mandate by doing the following:

- Ensuring that prescribed measuring instruments used for trade are type-evaluated for proper design, construction and accuracy, taking into account the South African climate and environment (pre-market approval mechanism)
- Inspections to ensure that importers, manufacturers and retailers use accurate measuring instruments for trade and that, where manufacturers or retailers prepare pre-packages, there is no short measure
- Taking action against those importers, manufacturers and retailers who supply short-measure products or use inaccurate measuring instruments
- Designating private verification laboratories to verify measuring instruments used in terms of the Trade Metrology Act on behalf of the NRCS
- Evaluating the competence of verification officers who work for private verification laboratories to perform verification on behalf of the NRCS
- Providing traceability of accuracy to national standards for verification and inspections standards used to approve, verify and inspect measuring instruments
- Providing training to inspectors and, where requested, regional legal metrology bodies (e.g. SADC member states)
- Evaluating the test reports of gaming hardware and software before issuing a letter of certification (LOC) to the gaming and gambling industry, as mandated by the National Gambling Act
- Providing input into national, regional and international standards, as prescribed by various treaties and obligations

Three of the main activities listed above are accredited through the South African National Accreditation System (SANAS).

These are the following:

- ISO 17020 accreditation for the inspection function
- ISO 17025 accreditation for mass and volume calibration laboratories
- ISO 17025 accreditation for the type approval test laboratory

Overall performance

During the period under review, the division received 223 new applications for type approval, issued 247 certificates of approval, conducted 4 056 market surveillance inspections, and evaluated and tested 18 002 product samples. The non-compliance rate fell from 22.4% in 2011/12 to 17% in the current financial year. A total of 15 554 measuring instruments were inspected, with a non-compliance rate 28%. The non-compliance found were for inaccurate, unverified and unapproved instruments found in use.

Figure 1: Legal Metrology inspections

The division issued 5 492 embargoes for short-measure, incorrectly marked and unmarked goods and for non-compliant measuring instruments, 1 907 rejection certificates for non compliant measuring instruments, 5 349 warnings for goods and measuring instruments found to be non-compliant and recommended 109 businesses to the State Prosecutor for prosecution. The calibration of 16 891 verification standards was done. The division also issued 773 letters of certification for gaming machines as part of its mandate.

The cost saving to the consumer, by removing non-compliant pre-packaged goods from the market or by ensuring the correction of non-compliances, is estimated at R41 million. This is substantial, as the current market coverage is below 20%. The estimated cost-saving to consumers could have exceeded R204 million, had the division covered the entire market.

Highlights

The Legal Metrology review

the dti has provided additional funding to the NRCS to assist with the transition of the regulatory scope of the division from trade metrology, which covers mainly trade measurements, to a full spectrum of legal metrology, covering trade, health safety and environmental measurements.

National, regional and international liaison

During the past year, the Legal Metrology Division continued to work closely with other national, regional and international regulators, as well as standard bodies in the field of legal metrology. The division participated in a number of activities at national level, and engaged in several stakeholder liaison initiatives.

National liaison

The Legal Metrology Division chairs four South African Bureau of Standards (SABS) committees that deal with legal metrology standards. These are SABS TC 70, SABS SC 70 A, SABS 70 B and SABS 70 D. Members of the Legal Metrology Division participated in various working groups dealing with new standards and amendments to existing standards related to legal metrology technical requirements.

The involvement of the NRCS in these activities ensured that the regulatory requirements were adequately addressed in national standards that will become future technical regulations. It also ensured that the NRCS remained on the cutting edge of technological developments in the field of legal metrology.

The target market of the Legal Metrology Division is vast. The establishment of representative sector stakeholder forums is therefore not an easy task. Despite this, the process of establishing such forums is well underway and four formal sectors have been identified and formalised. These are the accredited verification laboratory sector, the dairy industry and grain sector, and the food and related industries sector. Meetings were held with these sectors to increase awareness and keep the industry abreast of developments in the field.

The Legal Metrology Division issued various press releases warning consumers of possible fraudulent activities of manufacturers and retailers.

The Legal Metrology Division also collaborated with the Food and Associated Industries (FAI) Division to ensure that imported and locally manufactured fish products complied with the prescribed requirements.

Regional and international liaison

The Legal Metrology Division is actively involved in regional and international work to ensure that the development of technical regulations is not prohibitive to South African regulators and industry. Developing countries do not have a strong voice on regional and international forums and therefore the NRCS has an important role to play in representing this community on the subcontinent and internationally.

The Legal Metrology Division represented South Africa on 28 technical committees of the International Organisation of Legal Metrology (OIML), which is responsible for drafting model regulations (recommendations) to be used in legal metrology.

The Legal Metrology Division also hosts the Secretariat of the following committees and forums:

- **OIML Technical Committee 6:** This committee deals with the requirements for pre-packaged goods. The Secretariat assisted with providing input into draft international recommendations that are currently being developed or revised by this committee. The Secretariat collated international comments received and prepared the following drafts: OIML International System for the certification of pre-packages, OIML R79 for quantity labelling of pre-packages, and OIML R87 for the accuracy of packing and test methods for pre-packages.

- **SADC Cooperation in Legal Metrology (SADCMEL):** The head of Legal Metrology is the regional coordinator of this forum. The Secretariat was responsible for arranging the 27th SADCMEL meeting in Luanda, Angola, in March 2013. The Legal Metrology Division, as regional coordinator of SADCMEL, also participates on the Tripartite Metrology Coordinating Committee to give effect to the tripartite action plan. A meeting of experts from the regional economic communities, including the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC, was called to discuss an action plan for regional upliftment in the areas of standards, quality assurance, accreditation and metrology (SQAM), which will be included in an annexure to the Free Trade Agreement under the tripartite MoU. Local expertise will be needed from the NRCS to assist with the implementation of the proposed work plan.

- **The Intra-Africa Metrology System (AFRIMETS):** The division's secretarial activities and attendance of AFRIMET's meetings furthered the commitment of the Regulator to play a leading role in regulatory activities on the continent, and also ensured exposure of the NRCS as a leading regulator in the field of legal metrology.

The head of the Legal Metrology Division represented South Africa at the International Committee of Legal Metrology (CIML) meeting (steering committee meeting for the OIML) in Bucharest, Romania, to keep abreast of the organisation's technical progress and administrative operations, and to provide South African input where required.

Major challenges

Resourcing

A lack of capacity is one of the main reasons for the high non-compliance rate among importers, manufacturers and retailers. The division's client base is by far the largest within the NRCS. It spans the entire economy, and includes all manufacturers of pre-packaged goods as well as users of measuring instruments that are used to conclude trade transactions. The Legal Metrology Division has a need for additional resources to deal with the scale of inspection coverage that is required to combat non-compliance. An expansion of the existing capabilities will therefore have to take place in the near future.

The funding model used in the division is the main reason for the resource constraints. Unlike other divisions in the NRCS, the principal source of funding for legal metrology is through a government grant, which is inadequate for the expansion of the function, as envisaged in the SQAM review. Although the Legal Metrology Division also receives income from its calibration, verification, approval and assessment activities, this is insufficient. The NRCS therefore welcomes the fact that **the dti** reviewed the Legal Metrology funding grant and made additional funding available to build capacity. The possibility of an alternative funding model (self-funding) will also be addressed as part of the Legal Metrology review, which is currently underway.

Conclusion

Although there are still major challenges in the division, the NRCS remains committed to protecting the right of consumers to receive the goods and services for which they pay, as well as ensuring confidence in the measurements made by the manufacturing industry of South Africa. This will ultimately lead to increased market access by local manufacturers.

05

Food and Associated Industries Division

Introduction

The Food and Associated Industries (FAI) Division is dedicated to the protection of the health and safety of consumers by administering compulsory specifications for canned and frozen fish, canned fishery products and canned meat. The division administers various compulsory food specifications on behalf of the Minister of Trade and Industry in terms of the NRCS Act.

The division administers seven compulsory specifications that are aligned with international guidelines and practices, as well as being harmonised with the standards and codes of practice of Codex Alimentarius. These compulsory specifications apply to all relevant products sold in South Africa, whether locally produced or imported, as well as South African exports to other countries.

The objectives of the division are as follows:

- Protect the health and safety of consumers
- Ensure compliance with food and associated regulations
- Assist role-players to comply with local and international regulatory requirements
- Promote fair trade, and protect national and international markets

The division works in close cooperation with several other legislators in the foods environment and FAI inspectors are appointed to administer the Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act No. 54 of 1972). Internationally, the FAI Division participates in various activities of the Codex Alimentarius Commission, especially the international sensory evaluation working groups. It has also entered into various international technical cooperation agreements. South Africa is a member of the World Trade Organisation (WTO), and South African food regulatory authorities are obliged to ensure compliance with the WTO Agreement on Sanitary and Phytosanitary Barriers to Trade (WTO SPS), as well as the WTO Agreement on Technical Barriers to Trade (WTO TBT).

The FAI Division has also been appointed as the competent authority to issue health guarantees of fish and fishery products on behalf of South Africa to the European Union. In order to demonstrate the credibility of inspection results and to verify the competence of the inspection system, the division is accredited to ISO/IEC 17020: General criteria for the operation of various types of bodies performing inspection.

The division has highly trained and technically competent inspectors and specialists. The division's inspection system includes inspection monitoring services and the surveillance of factories, processing plants, processes and products.

Overall performance

All strategic goals and identified tasks for the division for 2012/13 were successfully implemented. Various internal audits took place during the year, as well as an official SANAS audit. All audits and system reviews indicated that the division's quality management system was well entrenched and performing in compliance with the international requirements.

The division's regulatory and inspection methodologies are based on the risk profiles (risk-based approach) of the products regulated. The division conducts inspections on various products according to the inspection frequency indicated in Figure 2 and Figure 3.

In the year under review, the NRCS conducted 32 408 inspections on fishery and canned meat products. In ensuring compliance, the organisation inspects 100% of all declared fishery consignments, fishery productions and canned meat products. As indicated in Figure 3, the fishery industry inspections fluctuate because of the allocation of fish quotas and seasonal changes.

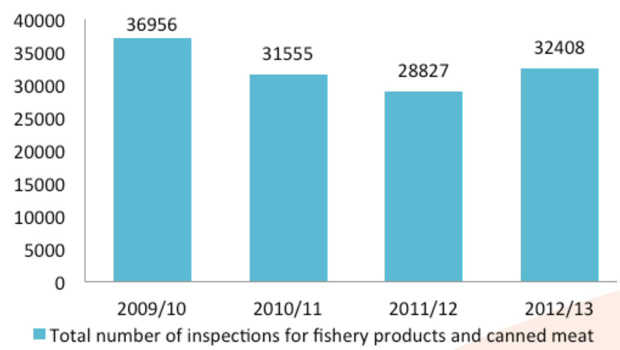


Figure 2: Total number of inspections for fishery products and canned meat

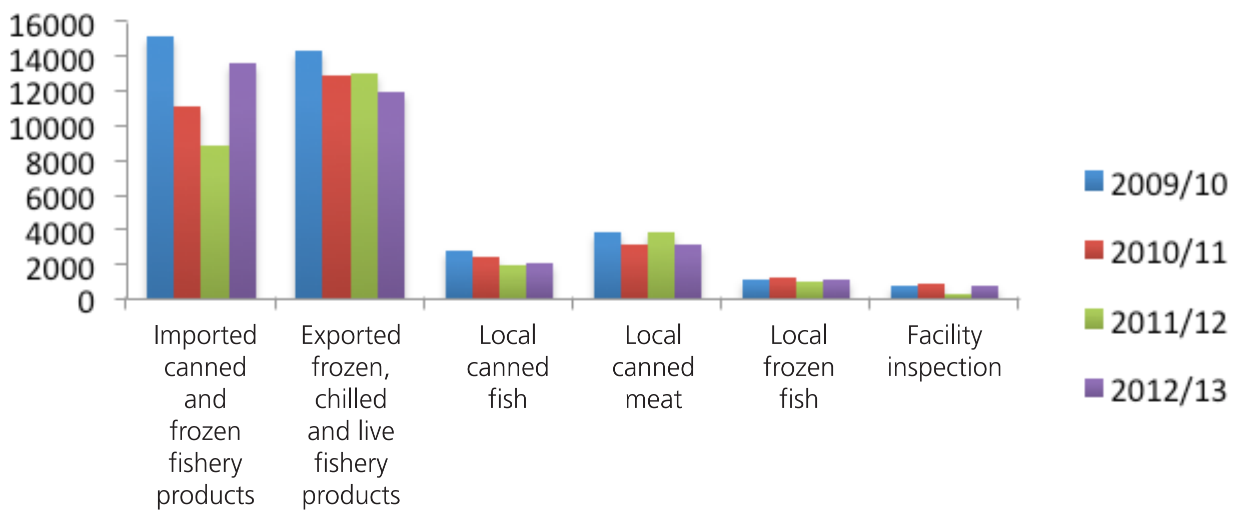


Figure 3: Total number of inspections in the foods and associated industries per category

Over the past few years, there has been an increase in the import volumes of canned fish products, except during 2011/12. Volumes of local production and imports fluctuate as a result of the availability of biological raw material (resources), abnormal and extremely adverse weather patterns (both locally and globally) and the ever volatile and fluctuating exchange rate. Some operations are seasonal, but cannot necessarily be predicted.

Non-compliances

A total of 392 certificates of non-compliance were issued for productions found to be of substandard quality due to no-compliance with certain non-food safety-related quality requirements regulated in terms of compulsory specifications. A total of 18 sales permits that stipulate certain sales conditions were issued for these products on request.

A total of 261 certificates of non-compliance were issued for products found to be not for sale, and directives were issued as appropriate. These products did not comply with the food safety and/or labelling requirements of the relevant compulsory specifications. Products must be re-labelled, destroyed or returned to the country of origin. Adherence to the directives process is strictly monitored.

Number of directives issued

A total of 33 directives were issued. The relevant products were mostly voluntarily destroyed by the industry under the supervision of NRCS inspectors.

Voluntary and national recalls of both locally produced and imported canned fishery products that posed a risk to human health were successfully conducted.

National and international liaison

Interactions were maintained with local and international industry bodies and trading partners to clarify and harmonise standards required for fishery products, and to inspect processing facilities. The bodies and partners include the following:

Local industry bodies

- Fishing industry
- Department of Agriculture, Forestry and Fisheries (DAFF)
- Department of Health (DOH)
- South African Bureau of Standards

International bodies

- Codex Alimentarius
- World Health Organisation (WHO)
- Food and Agriculture Organisation (FAO)

Trading partners

- China
- Ecuador
- The European Union
- India
- Namibia
- Malaysia
- Mozambique
- Thailand
- Tristan da Cunha
- Uganda
- Zambia

Staff development

The division was requested to participate in and deliver two presentations at a workshop of the Codex Alimentarius Commission that was held in Tanzania in December 2012 to explain South Africa's experience with the Codex standards-setting process during the last 30 years.

Staff members also attended a European Union (EU) Traces workshop in Namibia on the electronic certification of fishery products exported to EU member states.

The division places emphasis on ensuring the technical competence of its inspectors through continuous training and assessment.

Some of the highlights during the year included the following:

- Attendance of the Codex Alimentarius Commission in Rome, resulting in more than 20 food standards being adopted by the Commission. The standards are utilised to facilitate international trade.
- Leading the South African delegation that attended the session of the Codex Commission for Fish and Fishery Products (CCFFP) in Bali, Indonesia, in October 2012. The division made successful contributions to the proceedings of this session, which were commended by the chair of Commission.
- Representation at the meeting of the Codex Alimentarius Commission's Coordinating Committee for Africa, held in Cameroon during January 2013.

Locally, the division participated in and made contributions at the following legislation- and standards-setting forums:

- South African National Standards (SANS) for processed meat products in August 2012
- Food Legislation Advisory Group (FLAG) meeting hosted by the Department of Health during August 2012
- The Sanitary and Phytosanitary (SPS)/Technical Barriers to Trade (TBT) Committee meeting hosted by the DAFF in June 2012

Stakeholder relationships

The division held 127 individual meetings during 2012/13 with representatives from various companies in the fish and meat industry (local manufacturers and importers) to discuss various operational and technical issues, and issues of mutual concern. In addition to the normal day-to-day interactions between staff and industry, official interactions took place with manufacturers of fishery products and can-manufacturing companies, as well as various industry organisations on issues of compliance to identify and deal with potential problem areas. It is the aim of the division to assist industry at all levels to meet compulsory specifications and other requirements.

Consumers

All consumer concerns were handled within the specified time frame, and no consumers indicated dissatisfaction with the handling of concerns or on the feedback provided. Consumers were also addressed or informed through the media and via information sessions held in selected areas.

Major challenges

Operational planning

Due to the unpredictability of local production and the import of fishery products, operational planning remains a challenge. Operational tasks and resource utilisation must be reorganised and adjusted at short notice, where necessary, to accommodate the demands of sudden increases in imported consignments and locally manufactured productions.

Fluctuations in the volumes of imported canned fish consignments

Due to the local shortage of pelagic fish for canning purposes (because of large reductions in the quota allocations) and the consequent shortage of canned fish in the local market, a huge increase in imported consignments of canned fish was experienced during the first six months of the financial year. The import of canned fishery products also increased dramatically during some months, due to an undersupply to the local market. This trend is expected to continue in the coming year, as DAFF has advised the division that there will be a quota reduction for pilchards in 2013/14. Local production is therefore expected to decrease and imports are expected to increase in 2013/14.

Poor sales of canned products in general caused an over-supply in the market. This trend was also observed in the canned meat industry, where the production of canned meat declined during most of 2012/13. This had an adverse effect on the levy income of the division, as the income generated depends on production volumes for the year.

Ensuring food safety

Stringent monitoring and inspection of products, processes and processing establishments have to be implemented, both nationally and internationally, to ensure the safety of food products.

Industry role-players (both local and international) are given technical support with regard to the interpretation of food law in South Africa.

Conclusion

The division achieved its objective of protecting consumers from unsafe and poor quality products by ensuring food safety, as no evidence of consumer illness or death was reported from products regulated by the division. The safety and quality of products were improved through consistent and increased focus on preventive actions at the manufacturers' premises and ports of entry (national as well as international).

06

Automotive Division

Introduction

The Automotive Division derives its mandate from the NRCS Act. In addition, the division is appointed by the National Department of Transport (NDoT) as the inspectorate of manufacturers, importers and builders (MIBs) of motor vehicles and components of motor vehicles in terms of the National Road Traffic Act, 1996 (Act No. 93 of 1996).

The division has to ensure that all vehicles and vehicle components that fall within the domain of the NRCS Act and the National Road Traffic Act comply with all compulsory requirements before they are offered for sale in South Africa, and to ensure that vehicles and components continually comply with the legal requirements after initial approval of these vehicles and/or components.

The Automotive Division is continuously presented with the challenge of ensuring alignment with the latest technological development in a fast growing motor industry. In its effort to remain abreast of these changes, the division is committed to ensuring that it plays a role that is much more closely attuned to the core functions and responsibilities of the NRCS.

Performance in 2012/13

Approvals

The Automotive Division issues approvals to MIBs for new models of motor vehicles and/or certain components of motor vehicles through a verification process known as homologation. The following commodities fall under the scope of the division:

- Passenger vehicles (Category M1 vehicles)
- Buses (Categories M2 and M3 vehicles)
- Light commercial vehicles (Category N1 vehicles)
- Heavy commercial vehicles (Categories N2 and N3 vehicles)
- Trailers (Categories O1, O2, O3 and O4 vehicles)
- Agricultural tractors (Category U vehicles)
- Motorcycles, motor tricycles and quadro-cycles (Category L vehicles)
- Child restraints
- Lights
- Tyres
- Safety helmets for motor cyclists
- Replacement brake lining assemblies
- Replacement safety glass
- Towing devices (tow bars)
- Hydraulic brake and clutch fluid

As at the end of the financial year, 5 867 vehicles and 5 122 vehicle components had been homologated (approved) by the division.

Inspections

The Automotive Division conducts inspections at the premises of a business when a new application requesting registration as an MIB is submitted to the Department of Transport. Inspections are conducted after homologations (approvals) are granted to ensure ongoing conformity of production. Inspections are also conducted at retail outlets.

At the end of the financial year, a total of 4 326 inspections had been conducted by inspectors within the division.

Figure 4 reflects the trend over the past four years. The decrease in the number of inspections is mainly attributed to the change in the business model of the NRCS because resources were allocated to the ports of entry and the inspection was founded on quality and completeness

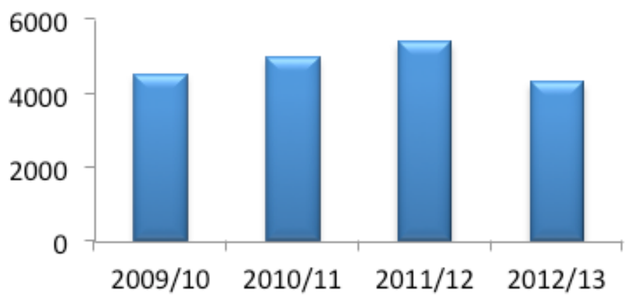


Figure 4: Number of automotive inspections

Sanctions

A total of 29 CEO directives were issued for non-compliant products for the financial year under review. These included 26 non-compliant agricultural tractors and three batches of brake friction materials. Twenty-three of these tractors had to be returned to the country of origin after the NRCS declined a sales permit application to allow these vehicles to be sold in South Africa.

The NRCS authorised the exportation of 96 motorcycles and 96 helmets that did not meet South African minimum safety requirements.

The Automotive Division is linked to the electronic National Traffic Information System (eNaTIS), which assists in keeping non-compliant products out of the market. If non-compliance is identified and no corrective action is implemented by the MIB, the NRCS issues a directive to the MIB and suspends the model NaTIS number so that no further vehicles of that model can be registered and sold in South Africa.

Stakeholder engagements

In order to ensure its effectiveness and to keep abreast of technological changes around the world, representatives from the division actively participate in the following stakeholder interactions: WP.29 Stakeholders Forum, Department of Transport (DoT)/NRCS Automotive Forum, DoT Vehicle Technical Committee, DoT Interprovincial Policies and Procedures Meeting, DoT Abnormal Loads Committee, SAPS Vehicle Crime Forum, National Association of Automobile Manufacturers of South Africa (NAAMSA)/NRCS Automotive Forum, Retail Motor Industry (RMI), Institute of Road Transport Engineers Technical Committee, South African Bus Operators Association (SABOA) Technical Committee and various SANS technical committees.

Internationally, representatives from the Automotive Division, as the South African designated administrative department, actively participate at WP.29 (World Forum for Harmonisation of Vehicle Regulations) and the WP.29 subsidiary bodies on "Pollution and Energy, General Safety, Brakes and Running Gear, Lighting and Light-signalling, and Passive Safety".

Highlights

The division embarked on several group inspections and confiscated non-compliant products, such as replacement brake linings and lights. This initiative contributed effectively to the NRCS's mandate to ensure that non-compliant products are removed from the marketplace.

Several special projects were undertaken in the Western Cape, Durban and Port Elizabeth, where most of MIBs are located in an effort to remove non-compliant products from the market. A number of CEO directives were issued to stop the sale of non-compliant products that were identified, pending corrective action by the parties concerned. These initiatives were able to send a clear message to potential transgressors in highlighting the NRCS's stance in dealing with such practices.

The division was able to stop a number of containers with non-compliant automotive products through the border enforcement projects, especially in the brake lining industry.

The division was successful in maintaining SANAS accreditation for the administration of compulsory specifications.

Challenges

There is a lack of testing facilities in South Africa, which makes it difficult for local manufacturers and importers to prove compliance to the NRCS's compulsory specifications.

07

Chemical, Mechanical and Materials Division

Introduction

The Chemical, Mechanical and Materials (CMM) Division is responsible for the regulation of compulsory specifications that fall within the scope of industry sectors. Currently, this includes personal protective equipment (safety footwear and respiratory protective devices, flotation devices and swimming aids), firearms and shooting ranges, flame-producing devices (paraffin stoves and heaters, and cigarette lighters), health-related products (microbiological safety cabinets and disinfectants), construction materials (cement and treated timber) and products that affect the environment (plastic carrier bags and coal-burning stoves).

The CMM Division enforces regulations on behalf of the following government departments:

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

The activities of the CMM Division in the administration and maintenance of technical regulations involve the processes of pre-approval, market surveillance inspection, sampling and sanctioning.

Overall performance

The CMM Division conducted 4 314 inspections against a target of 4 000. Figure 5 shows the trend from 2009.

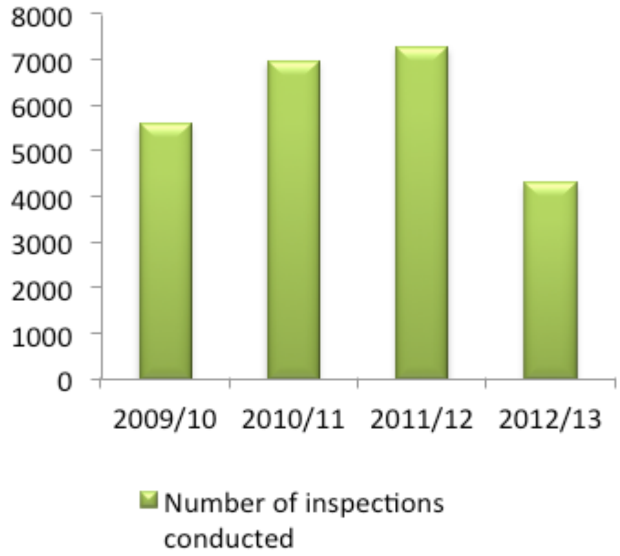


Figure 5: Number of inspections conducted

Border enforcement

The CMM Division participated in the Border Enforcement Project at Durban Harbour and in Cape Town, East London, Nakop and Vioolsdrift. The division acted as the project leader for the Nakop, Vioolsdrift and Cape Town projects. All inspectors and managers participated. Through its involvement in this project, the division has started implementing the Risk-based Inspection Model.

Winter campaign

The NRCS launched the winter campaign, which was aimed at removing non-compliant products from the market. The campaign ran from the beginning of June until the end of July 2012, and targeted poorer communities across the country. The campaign focused on regulated products that are used more frequently in winter. The products in question included paraffin appliances, electric heaters and electric blankets. The towns covered by the winter campaign were Johannesburg, Cape Town, Durban, Polokwane, Bloemfontein, Kimberley, Rustenburg and East London. The campaign entailed a door-to-door community walkabout, the education of learners at schools, canvassing at public places, such as clinics, malls and community centres, and conducting inspections with a view to educating stakeholders.

Approximately 1 900 households were visited, where 93% of the paraffin stoves were found to be non-compliant and replaced with compliant ones. An important aspect of the campaign was to raise consumer awareness of NRCS-regulated products.

The campaign received significant media coverage and volunteers from the communities assisted inspectors in the awareness-raising campaign. This contributed to the success of the campaign and resulted in it being well received by the community.

Table 1: Breakdown of the required paraffin stove replacements

City	Number of stoves replaced
Rustenburg	138
Alexandra	226
East London	79
Kimberley	230
Bloemfontein	190
Cape Town	129
Polokwane	274
Durban	195
Total	**1 461**

Approvals

The CMM Division issues pre-market approvals for products that comply with relevant requirements. These pre-approvals are given after evaluating submitted evidence of compliance against the requirement of the relevant compulsory specifications. During the period under review, the division achieved its set target of carrying out pre-market approvals within the set turnaround time of 21 days. The division processed 580 applications, 363 of which were approved.

Sanctions

During the year under review, all the division's CEO directives were issued within the targeted turnaround time of 72 hours, with a total of 93 directives being issued. The Board of the NRCS approved the destruction of 319 800 plastic carrier bags and flat bags of various sizes to the value of R158 650. These plastic bags did not meet the thickness requirements.

The division applied immediate sanctions to a shipment of non-compliant cement from Vietnam. The importer was known to the NRCS as the importer of a different brand of cement that has NRCS approval. The cement from Vietnam was imported without pre-approval, as required by the VC9085 compulsory specification for cement. Test reports indicated strength failures, as well as marking requirement failures. The cement was confiscated and a request for a directive for destruction of the cement was submitted to the Board. The request was granted and 500 bags of cement, weighing 50 kg each, to the value of R300 000, were destroyed. A press briefing was held to inform consumers of the non-compliance.

Quality management system

The division has established, implemented and maintained a documented divisional management system that conforms to the requirements of SABS ISO/IEC 17020:1998 for the administration of compulsory specifications in accordance with the NRCS Act.

The division is accredited by SANAS as being the competent body to perform inspections on life jackets and buoyancy aids, swimming aids that are worn or carried on the body and swim seats, respiratory protective devices, and disinfectants and detergent disinfectants.

The division is in the process of extending the scope of its SANAS accreditation to include the following commodities: shooting ranges for small arms, cigarette, cigar and pipe lighters, non-pressure paraffin stoves and heaters, and plastic carrier bags and flat bags. During 2014, the division will also extend the scope of its SANAS accreditation to include the inspection of cement.

At the end of 2011, the division initiated the process of implementing the new requirements of SANS 17020:2012. The implementation of these new requirements will improve the effectiveness of the divisional management system for the administration of compulsory specifications.

Highlights

As part of the preparation for the Border Enforcement Project in Cape Town, presentations were also made to the Border Police (Seawing) of the SAPS and the SARS Customs divisions on the NRCS's mandate and procedures in dealing with compliant and non-compliant products.

Major challenges

Challenges experienced by the division during the period under review included the following:

- The lack of human resources to extend the division's regulatory scope.
- The long turnaround times for testing experienced at many testing facilities resulted in the NRCS not being able take action timeously.
- Limited storage space for goods seized during inspections and border enforcement operations, as well as the risks associated with storing such consignments, proved to be an ongoing challenge.
- Some suppliers evaded NRCS enforcement by moving their non-compliant products from province to province and area to area to avoid prosecution.

08

Electrotechnical Division

Introduction

The Electrotechnical Division is a market surveillance division within the NRCS that enforces compulsory specifications, spanning a wide spectrum of electrical and electronic products. The regulated products include household appliances, such as heaters, refrigerators, television sets, plugs and adaptors, electric cables, lamps and circuit breakers.

The Electrotechnical Division has also been granted additional powers under various other Acts and agreements as follows:

- The NRCS has been appointed to approve components of electrical installations under the Electrical Installation Regulations of 2009, which form part of the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993).

- A working arrangement exists between the NRCS and the Independent Communications Authority of South Africa (ICASA) on the electromagnetic compatibility and interference of electrical and electronic apparatus regulated under the VC 8055 – compulsory specification for electrical appliances. The MoU is expected to be concluded in the coming financial year.

The Department of Energy is currently leading the energy-efficiency agenda and is working with the NRCS to introduce new energy efficiency compulsory specifications for the energy efficiency of various household appliances, and the phasing out of inefficient lighting technologies. These initiatives are contained in IPAP and the National Energy Efficiency Strategy of 2008.

The electrotechnical business processes include the approval of products, market surveillance inspections, sampling products from the market, testing products at accredited third-party laboratories and administering sanctions on non-compliant products in terms of section 15 of the NRCS Act.

Overall performance

Inspections

The Electrotechnical Division conducted 4 465 inspections against its set target of 4 000 inspections. Border inspections constituted 22.8% of the total number of inspections, against a target of 20%, with the bulk of the inspections being conducted at Durban Harbour in support of the Border Enforcement Pilot Project.

Border enforcement in Durban was operationalised and the City Deep dry port of entry experienced increased activity. The division responded to stoppages of products at the ports of entry by SARS and the SAPS. However, it did not have absolute control over the number of stoppages. It was noted that in some instances importers had made fraudulent declarations in an effort to evade regulatory processes.

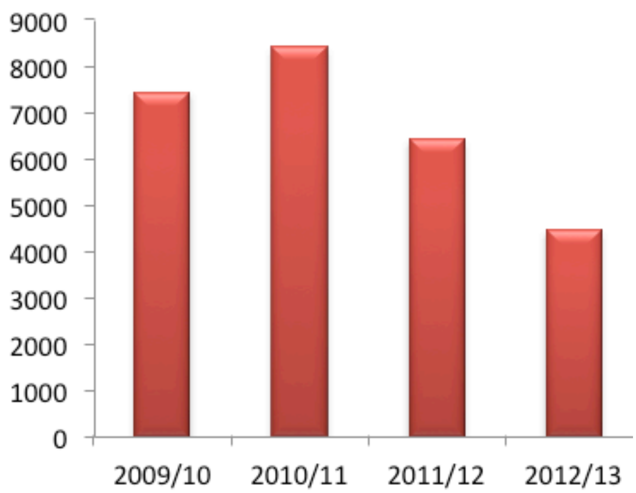


Figure 6: Number of electrotechnical inspections conducted

Approvals

The division faced various pre-market approval challenges and therefore did not meet the target turnaround time of 21 days. Only 38% of the approvals were processed within the target period. The delays were mostly due to the increase in the scope of regulation, capacity constraints, the inability to employ new evaluators as a result of the complex recruitment process and the negative impact of labour relations issues.

Table 2: Electrotechnical approvals statistics

Total number of applications for 2012/13	Number of approvals for 2012/13	Number of approvals within 21 days	Percentage of approvals within 21 days
6 071	7 453	2 824	38%

Sampling and testing

The Electrotechnical Division takes random samples of regulated products in the market, using statistical sampling techniques in order to verify compliance by means of testing. A total of 339 samples were sent to accredited third-party laboratories for testing against the requirements of the relevant compulsory specifications.

Sanctions

When non-compliant products are found in the market, offenders are sanctioned. Sanctions may include the confiscation and destruction of products, or the return of such products or consignments to their country of origin. Actions are taken in accordance with decisions of the NRCS Board. Directives are used to give effect to the sanctioning process.

During the period under review, approximately 99% of the CEO directives were issued within the target turnaround time of 72 hours. A total of 438 CEO directives and 81 Board directives were served.

Quality management system

The Electrotechnical Division is accredited to SANS 17020 for inspection bodies, and operates a quality management system that gives a high level of assurance on reliability, consistency and repeatability of excellent service levels across business processes. During the period under review, the entire division successfully maintained its accreditation status, after undergoing an annual assessment by SANAS.

Highlights

The Electrotechnical Division was involved in a number of notable events and projects during the period under review. These include the following:

Winter campaign

The division participated in the two-month cross-functional awareness project across eight provinces, where poor households in informal settlements were educated about the safety of household appliances, such as electric heaters and stoves, which are used more frequently in winter. More than 2 000 households were visited during the course of the campaign, of which at least 27% were using non-compliant electrical products. Some of these were replaced.

Border enforcement

The division increased its enforcement efforts at ports of entry and was involved in operations at seven ports of entry: Durban, Cape Town, Port Elizabeth, Nakop, Lebombo, Vioolsdrift and the dry port of City Deep. The border enforcement target of 800 inspections was exceeded by 27.3%.

Stronger relations were built with SARS and the SAPS at the ports of entry.

Non-compliant product destructions

Two product destruction events were held in Pietermaritzburg and Cape Town, where non-compliant products worth more than R2 million were destroyed. These were identified through the Border Enforcement Project and included electric heaters, lawn mowers, fans, electric kettles, audio-visual equipment, plugs, socket outlet adaptors, power tools, incandescent lamps and toasters.

International visits

Staff of the Electrotechnical Division participated in several international and regional technical committees, meetings, working groups and information-sharing engagements. Regional trips included two separate visits to Lesotho, where staff visited the Circuit Breaker Industries (CBI) manufacturing plant and a compact fluorescent lamps (CFL) assembly plant.

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

Stakeholder engagements

The division participated in numerous stakeholder meetings. Four levy consultation meetings and quarterly industry meetings were held across the regions.

The division worked with several government departments and non-governmental organisations during the winter campaign.

Major challenges

The following major operational challenges were encountered during the period under review:

- Testing capacity was still a problem in product areas, such as CFLs and electric blankets.
- The long turnaround times for testing experienced at testing facilities resulted in the NRCS not being able take timeous action in some cases.
- The admissibility of the SABS mark as evidence of conformity when applying for the pre-market approval of regulated products.
- There is limited storage space for goods seized during inspections and border enforcement operations, especially at the inland ports. The risks associated with storing such consignments proved to be an ongoing challenge.
- The impasse with the unions continued for most of the financial year and had a severe impact on the operational performance of the division, particularly with respect to the employment of new evaluators in the approvals section.
- There are no compulsory specifications for electrical installations in support of the Electrical Installation Regulations of 2009, which form part of the Occupational Health and Safety Act, 1993 (Act No.85 of 1993).

Conclusion

The Electrotechnical Division achieved its inspection targets during the period under review. The division intensified its efforts at the ports of entry to "lock out" non-compliant products from the market. Seven ports of entry were covered, including three sea ports, three inland ports and one dry port. The percentage of border inspections increased when compared with the total number of inspections done. In KwaZulu-Natal alone, 71% of the inspections were conducted at Durban Harbour during the fourth quarter and approximately R2 million worth of non-compliant products were found and destroyed.

The division also achieved its target for the turnaround times of directives and the maintenance of the accreditation status. Meeting targets for approvals proved to be a challenge, with only 38% of approvals processed within the target turnaround time of 21 days.

09

Regulatory Research and Development Division

Introduction

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

- 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 relevant national policy and regulatory issues

This development process for technical regulations involves feasibility studies, risk assessments, impact assessment studies, and extensive stakeholder engagements and consultations with all affected and interested parties to ensure transparency with regard to the proposed regulatory intervention. In essence, the work of the division involves gathering and packaging crucial information to advise the NRCS enforcement divisions and the organisation in general. The RRD Division also serves as a representative of the organisation in relevant national, regional and international forums.

The need to focus on sustainability was and remains an important factor in RRD activities and supports the NRCS's mandate of the protection of consumer health and safety, and the environment. The incorporation of compulsory specifications that support the sustainable use of natural resources and protect the environment is becoming increasingly important. IPAP identifies sustainability and environmental protection as priority issues. Support for 'green' and energy-saving industries, such as solar water heaters, the energy efficiency of products (incandescent lamps and electrical appliances), the water efficiency of buildings and plumbing components, and energy-efficient vehicles are part of the priorities of the RRD Division.

The mission of the RRD Division is to be an influential knowledge hub, informing the work of the NRCS and **the dti** in the field of product and services regulation during the next strategic period. This will be achieved through the following activities:

- Supporting, leading and influencing the drafting of technical regulations
- Researching, commissioning and packaging research regarding the NRCS's regulatory environment to inform strategic decisions as well as the work of operational divisions
- Assessing and evaluating product and service risk to inform policy and legislation, as well as the development of the appropriate regulatory instruments
- Developing insight into South Africa's regulatory challenges and opportunities and ways in which the regulatory process may be optimised
- Applying a knowledge management approach to ensure that the institutional knowledge of the NRCS is not lost and is available to inform the thinking and decisions of people

Overall performance

The RRD Division finalised 12 projects (against a target of 11) for new and amended compulsory specifications and technical regulations from April 2012 to March 2013. These included seven projects for the amendment of specifications and/or regulations under the NRCS Act, one amendment to a technical regulation under the Trade Metrology Act, and one withdrawal of a specification in the area of chemical, mechanical and materials products. The risk assessments of another three projects for proposed new compulsory specifications for electrotechnical products proved that the risks posed to the health and safety of consumers by these products were either insignificant or under control, and therefore the projects were not feasible.

The amended compulsory specifications under the NRCS Act included the following:

- VC 9091 for compact fluorescent lamps (updating of administrative requirements)
- VC 8022 for category M1 vehicles (inclusion of electric vehicle requirements)
- VC 8024 for category N1 vehicles (inclusion of electric vehicle requirements)
- VC 8055 for safety of electric and electronic appliances (inclusion of requirements for LED lighting)
- VC 8043 or incandescent lamps (inclusion of performance requirements for energy-efficiency).

The amended technical regulation finalised under the Trade Metrology Act was for the following:

- Amendment of the Trade Metrology Technical Regulation for automatic rail vehicle scales

The recommended withdrawal of a compulsory specification under the NRCS Act was for the following:

- VC 8034 for coal stoves and heaters

The risk assessments for the following three proposed new compulsory specifications under the NRCS Act proved that regulatory intervention was not needed:

- Proposed new VC for electrical emergency stop devices
- Proposed new VC for non-trip disconnectors
- Proposed new VC for contactors, motor-starters and overload relays

Extensive research was done as part of the completion of several feasibility studies, and risk and impact assessments that were completed during the year. Research projects that were successfully supported or finalised included the following:

- Feasibility and impact assessment for the withdrawal of VC 8034 for coal stoves and heaters
- Feasibility and risk assessment for the proposed new compulsory specification for the safety of toys
- The development of a risk-based model methodology for the NRCS: The RRD Division held internal workshops to assist the CEO's office in the development of a valid methodology for risk-based inspections. The proposed methodology was submitted to the CEO's office for acceptance and testing
- The acquisition and interpretation of data from the NRCS's regulated marketplace to populate the risk-based model: The RRD Division assisted the CEO's office to develop a project proposal. Capital budget was sourced and a tender advert was placed that led to a change in the scope of the project as a result of information shared during the bid information meeting.

Highlights

Compulsory Specifications (VCs) and Technical Regulations (TRs)

the dti published the following notices in the *Government Gazette* during 2012/13:

- New VCs and TRs:
  - New VC 9001 for live aquaculture abalone (final gazetting on 15 June 2012)
  - New VC 9006 for hot-water storage tanks for domestic use (gazetted for public comment on 28 September 2012)
  - New VC 9004 for integral and close-coupled domestic solar water heaters and thermal collectors for domestic solar water heating systems (gazetted for public comment on 28 September 2012)
- Amended VCs and TRs:
  - Amended Trade Metrology Regulation for non-automatic weighing instruments (final gazetting on 18 May 2012)
  - Amended VC 8087 for plastic carrier bags and flat bags (gazetted for public comment on 28 September 2012)
  - Amended VC 9089 for non-pressure paraffin stoves and heaters (gazetted for public comments on 28 September 2012)
- Withdrawal notices:
  - VC 8062 for number plates (gazetted for public comment on 21 December 2012)
  - VC 8078 for contour marking (gazetted for public comment on 21 December 2012)

In line with the requirements of the NRCS Act, regulations and corporate procedures, the RRD Division held 42 formal stakeholder meetings and engagements to ensure transparency during the process of technical regulation development.

Trade Metrology Technical Regulations and National Standards

The following technical regulation projects are in various stages of progress:

- Automatic rail vehicle scales
- Liquid meters other than water
- Instruments used to measure gases
- Multi-dimensional length measuring instruments

Research and technical input were provided for the development of the SABS national standards for labelling requirements for pre-packaged products (pre-packages) and general requirements for the sale of goods subject to legal metrology control (SANS 289), automatic rail vehicle scales (SANS 689) and evidential breath analysers (SANS 1793).

A guidance document on the application of the new regulatory requirements in the amended SANS 1649 dealing with non-automatic weighing instruments, which became compulsory in July 2012, was prepared for use by industry. The application of the amendments was also discussed at industry meetings in Pretoria, Durban and Cape Town.

Regional and international involvement

SADC

An RRD representative of the SADC Cooperation in Legal Metrology (SADCMEL) Secretariat attended the 27th SADCMEL meeting and SQAMEG meeting in Luanda, Angola in March 2013, and acted as the SADCMEL regional coordinator. A SADCMEL Project Management Committee meeting was also attended. Attendance of the above meetings furthered the commitment of the NRCS to play a leading role in regional matters of interest.

OIML TC 6

An RRD specialist and member of the OIML TC 6 Secretariat assisted with the following matters:

- Collation of international comments and preparation of committee drafts of OIML R79, which deals with quantity labelling of pre-packages
- Preparation of Committee Draft 1 for the revision of OIML R87, which deals with the accuracy of packing and test methods for pre-packages

A meeting of OIML TC 6 was attended in Tokyo during October 2012, where international comment on the revision of OIML R79 and OIML R87 was discussed and the national position communicated.

OIML TC 8

An RRD specialist attended an OIML TC 8 /SC 3 meeting in Paris, France in November 2012, where discussions were held on draft type approval and verification testing requirements for measuring instruments used for liquids other than water. The RRD Division participated in several web-based teleconferences where test procedures for specific instruments, such as liquid fuel dispensers and milk meters, were discussed.

The meeting of OIML TC 8 /SC 7 was attended in Delft, The Netherlands in November 2012, where discussions were held on draft requirements for gas dispensers for fuelling motor vehicles. Input was provided as necessary.

WP.29 (World Forum for the Harmonisation of Vehicle Regulations)

Three international WP.29 meetings and one WP.29 IWVTA (Working Group on International Whole Vehicle Type Approval) meeting were attended by the RRD automotive specialist during the year. Under the 1958 agreement, there were 86 amendments to the UNECE Regulations, of which 49 amendments affected 44 regulations that are referred to in the NRCS motor vehicle compulsory specifications. One of these amendments affected requirements of the Road Traffic Regulations and an amendment was proposed and approved by the Department of Transport Technical Committee.

New regulations on lane departure warning systems, advanced emergency braking systems and child restraint systems were proposed and adopted. Under the 1998 agreement, there was one amendment to an existing global technical regulation (GTR).

WP.29 continues to show great interest in the involvement of the NRCS in the region, and a meeting was held with the UN Secretariat to receive feedback on the progress being made on the harmonisation of regulations within the tripartite (SADC, COMESA and EAC) group.

Symposium on International Automotive Technology (SIAT)

The RRD automotive specialist was invited as an expert to the Symposium on International Automotive Technology (SIAT), held at the Automotive Research Association of India (ARAI) in January 2013. As a panel member of the BRICS nations, the specialist gave a presentation on the South African perspective with regard to the panel discussion points of an automotive technology roadmap towards a greener world, safer mobility solutions and how to make mobility solutions affordable.

A presentation on the South African motor vehicle approval system was given at a breakaway session to an audience of international vehicle and component manufacturers, and various international technical papers were judged as part of a panel.

The tripartite (SADC, COMESA, EAC) group of experts on the harmonisation of vehicle regulations

One tripartite group meeting was held in Kigali, Rwanda during the year. Input was given into all the documents that were up for discussion on the roadworthiness of motor vehicles, the evaluation of vehicle test stations, the transportation of dangerous goods, and the transportation of abnormal loads.

International training

One of the RRD technical specialists attended a week-long EU training course on regulatory impact assessments during October 2012 in Rome, Italy.

Major challenges

The challenges for the RRD Division were as follows:

- RRD performance and output continued to be constrained by capacity and resource problems (budgetary constraints, Human Resources processes and labour instability), which led to delays in the appointment of RRD staff.
- RRD specialists are difficult to source because of the technical qualifications, experience and combination of skills needed for this role.
- Formal editing and proofreading support is not yet available within the NRCS to improve and align the language quality of RRD's official documentation.
- Equipped large meeting rooms and facilities are not available on site for RRD official stakeholder meetings.
- Several projects needed extensions of their time lines because of unexpected complexity and policy issues raised during stakeholder engagements.
- RRD specialists with extensive experience are nearing retirement age and no mechanism exists to ensure that knowledge and experience is carried over through some form of formal mentorship.

Conclusion

The strategic target of the RRD Division for the finalisation of 11 compulsory specifications and technical regulation projects in the 2012/13 NRCS strategic and business plan was achieved through the finalisation of 12 projects by year end. The target for the 2013/14 period is the finalisation and submission of 12 projects for EXCO and Board approval by March 2014.

10

National Building Regulations Division

Introduction

The National Building Regulations Division is responsible for ensuring a uniform understanding and implementation of the building regulations and building standards in accordance with the National Building Regulations and Building Standards Act, 1977 (Act No 103 of 1977) (NBRBS Act).

The objectives of the division are as follows:

- Administer the Review Board tribunals, where appeals arising from disputes between the public and local authorities on building plan approvals are heard and findings and decisions are made in line with the NBRBS Act
- Provide technical advice and interpretation of the NBRBS Act
- Conduct investigations on building defects and perform architectural forensics as an impartial party
- Evaluate the qualifications of building control officers

Overall performance

Highlights of the division during the period under review include the following:

- The growth of the Building Control Officers Steering Committee nationally with provincial member representation
- The hosting of road shows to raise awareness of the new regulation for energy-efficient buildings in accordance with the requirements of IPAP
- The organisation of the Annual National Building Control Officers Convention in Cape Town in 2012, which assisted in ensuring a uniform implementation of the Act

Significant strategic initiatives included the following:

- Resuscitation of the National Building Regulations (NBR) Review Board and the filling of vacancies
- Investigations into the level of compliance to the NBRBS Act by local authorities, **the dti**, the Department of Cooperative Governance and Traditional Affairs (COGTA), the Department of Human Settlements and the NRCS

II

Corporate Services Division

Introduction

The Corporate Services Division comprises the Human Resources, and the Marketing and Communications functions. The division is responsible for the development and implementation of strategies that focus on the following:

- Human resource management and development
- Creating awareness of the NRCS and its mandate

These strategies are derived directly from the following strategic outcome goals of the NRCS:

Strategic Goal 3: To inform and educate industry and consumers regarding their rights and obligations with respect to specifications and technical regulations

Strategic Goal 4: To ensure that highly engaged, competent people are in the right place at the right time to enable the effective execution of the NRCS's strategy

Human Resources

Introduction

The Human Resources Division supports the organisational strategy through the development and implementation of strategies that focus on human resource management and development. Within the NRCS, the Human Resources function is a centralised function that operates within a complex and dynamic framework where a range of internal and external challenges intersect with the unique technical environment. The human resources department's offering to the NRCS is largely administrative.

The objectives of the NRCS's Human Resources Department are as follows:

- Ensure that the workforce has the necessary skills and competencies to deliver on the strategic goals and objectives as outlined in the NRCS's Strategic Plan
- Ensure that the organisation has the necessary capabilities to recruit and retain the quality and quantum of employees that it requires
- Ensure the promotion of employment equity
- Ensure that the organisation utilises its human resources optimally through appropriate change initiatives
- Develop leadership and create a learning organisation that values the importance of service delivery and hence empowering people for operational excellence
- Ensure the motivation of staff through talent management and other programmes

Human Resources oversight statistics

Personnel cost by salary band

Level	Personnel expenditure	% of personnel expenditure to total personnel cost	No. of employees	Average personnel cost per employee
Top management (P3-P4)	9 487 579	6.72	7	1 355 368
Senior management (P5-P6)	6560 967	4.65	9	728 996
Professional qualified, skilled (P7-P10)	104 081 314	73.76	209	497 997
Semi-skilled (P11-P12)	16 207 159	11.48	52	311 676

Level	Personnel expenditure	% of personnel expenditure to total personnel cost	No. of employees	Average personnel cost per employee
Unskilled (P13-P14)	1 626 864	1.15	9	180 763
Contract Employees	3 152 534	2.24	8	394 067
TOTAL	**141 116 417**	**100.00**	**294**	**479 988**

Training Costs

Directorate/Division	Training expenditure	Number of employees trained	Average training cost per employee
Corporate	13 393	10	1 339
Communications	76 724	8	9 591
CMM	24 893	8	3 112
LM	18 525	5	3 705
FAI	43 217	18	2 401
Automotive	10 598	5	2 120
Electrotechnical	6 281	2	3 141
Business Improvement	23 128	3	7 709
RR&D	30 450	6	5 075
Audit	45 702	10	4 570
Finance	11 340	1	11 340
EXCO	18 000	11	1 636
Management strategy session	161 652	50	3 233
NRCS Directors and EXCO	54 457	15	3 630
TOTAL	**538 360**	152	3 542
Workshops & seminars	2 401 006		
GRAND TOTAL	**2 939 366**		

The training budget remained underspent at the end of the financial year. This was due to capacity constraints within the Human Resources Department as well as delays in the procurement of service providers to conduct training for staff.

Employment and vacancies

Overall, the organisation underspent on its budget allocation for staff costs as a result of it not being able to fill vacancies timeously. The reasons for delays in filling a number of vacancies were as follows:

- Delays in finalising the organisational structure due to consultations that had to take place with various stakeholders
- New posts on the structure had to be profiled and graded before the advertisement of these positions
- Some posts were promotional positions through the competency development programme where this matter was being addressed through the mediation process with NEHAWU

Programme	2012/2013 No. of employees	2013/2014 Approved posts	2013/2014 No. of employees	2013/2014 Vacancies	% of vacancies
CEO (P2)	0	1	1	0	0
Top Management (P3-P4)	7	11	7	4	4.88
Senior Management (P5-P6)	9	14	9	5	6.10
Professional qualified, Skilled (P7-P10)	209	282	211	71	86.59
Semi-skilled (P11-P12)	52	61	54	7	8.54
Unskilled (P13-P14)	9	10	9	1	1.22
Contractors	8	0	6	(6)	(7.33)
TOTAL	**294**	**379**	**297**	**82**	**100.00**

Employment changes

The following table shows the changes in employment over the financial year. All contract employees are included at the post level at which they were appointed.

Salary band	Employment at beginning of period	Appointments	Terminations	Employment at the end of the period
CEO (P2)	1	0	1	0
Top Management (P3-P4)	7	1	1	7
Senior Management (P5-P6)	7	4	2	9
Professional qualified, Skilled (P7-P10)	211	14	12	213

Salary band	Employment at beginning of period	Appointments	Terminations	Employment at the end of the period
Semi-skilled (P11-P12)	53	4	1	56
Unskilled (P13-P14)	9	0	0	9
TOTAL	**288**	**23**	**17**	**294**

The organisation embarked on a job profiling and job evaluation process to confirm the level of all positions. The results of this exercise may have an impact on the job levels in the new financial year.

Reasons for staff leaving

Reason	Number	% of total no. of staff leaving
Death	1	5.88
Resignation	12	70.59
Dismissal	0	0
Retirement	0	0
Ill health	0	0
Expiry of contract	4	23.53
Other	0	0
TOTAL	**17**	**100**

Labour Relations: misconduct and disciplinary action

There were seven (7) matters raised for disciplinary action during the year under review. Of these four (4) cases were dismissed as a result of a 'not guilty' verdict being given, one (1) case resulted in a final written warning being issued and two (2) cases remained in progress at the end of the year.

Nature of disciplinary Action	Number
Verbal warning	0
Written warning	0
Final written warning	1
Dismissal	0
Outstanding	2

Wage negotiations

After a protracted period of wage negotiations and several CCMA interventions, Management was not able to reach a settlement with organised labour on substantive issues for the 2012/13 financial year. Negotiations were set to continue in the new year under the supervision of **the dti**.

Employment Equity status

Levels	Equity status							
	African		Coloured		Indian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
CEO (P2)	0	0	0	0	0	0	0	0
Top Manage-ment (P3-P4)	2	2	0	0	0	2	2	0
Senior Manage-ment (P5-P6)	6	1	0	0	0	0	1	1
Professional qualified, Skilled (P7-P10)	83	45	23	7	8	2	38	7
Semi-skilled (P11-P12)	6	27	3	5	0	2	0	11
Unskilled (P13-P14)	6	1	2	0	0	0	0	0
TOTAL	**103**	**76**	**28**	**12**	**8**	**6**	**41**	**19**

Levels	Disabled staff	
	Male	Female
CEO (P2)	0	0
Top Management (P3-P4)	0	0
Senior Management (P5-P6)	0	0
Professional qualified, Skilled (P7-P10)	0	0
Semi-skilled (P11-P12)	0	1
Unskilled (P13-P14)	0	0
TOTAL	**0**	**1**

The NRCS will continue to analyse and remove the systemic organisational barriers to designated groups' advancement and encourage diversity at all levels of the organisation. Going forward, programmes such as a new Employment Equity Plan and Employment Equity strategies become vital in ensuring a diverse workforce.

Health, safety and wellness

The purpose of the Employee Health, Safety and Wellness Programme has been to champion the environment in which healthy, productive NRCS employees are able to contribute to organisational and personal success, as well as to ensure that the NRCS remains compliant with the Occupational Health and Safety Act.

The NRCS supports a wellness programme that provides a consultation service to staff. With the assistance of an outsourced service provider, the NRCS provides an employee assistance programme to staff.

Communications and Marketing

The purpose of the Communications and Marketing function is to influence the behaviour of consumers, stakeholders and employees to increase voluntary compliance with applicable legislation and regulations. The department achieved its targets through a number of interventions, which included consumer education, media liaison, exhibitions and stakeholder engagements.

Consumer education

Activities of the Communications and Marketing Department that were aimed at educating consumers included the following:

- In partnership with the Eastern Cape Department of Economic Development and Tourism, a consumer awareness workshop was hosted in Kwanobuhle, Port Elizabeth, to educate residents about the regulatory activities of the NRCS.
- In collaboration with divisions of the NRCS, a mall activation campaign was implemented, where various malls across the country were visited with a view to interacting with consumers on the regulatory activities of the organisation.

Media liaison

The following statements and alerts were distributed to the media to generate coverage for the organisation. This assisted in raising a high level of awareness of the NRCS and its programmes:

- The launch of the winter campaign in Alexandra
- The winter campaign in Cape Town
- The winter campaign in Durban
- The winter campaign in Polokwane
- The distribution of safe paraffin stoves in Disteneng near Polokwane
- The destruction of unsafe electrical products in Cape Town

These media statements were published in various print media, such as *Citizen*, *Greater Alex News* and many of the local community newspapers. They were also released to the *South African Press Association* (SAPA). Media alerts received airplay on different electronic media as well, including *East Coast Radio*, *Thobela FM*, *Munghana Lonene FM*, *SABC Radio News* and *Alex FM*.

The department handled the following enquiries emanating from the media:

- ***Business Day:*** Allegations of inferior quality and underweight cement imports, as well as allegations of methyl mercury found in fish, its prevalence and related regulations.
- ***Sowetan:*** Complaints by taxi operators against Inyala mini-buses produced by Beijing Automobile Works. The operators questioned the NRCS's approval of the plant that was to be launched in South Africa when taxi operators had complained about the inferior quality of the mini-buses citing that vehicles break down easily, resulting in a loss of revenue.
- ***Diamond Fields Advertiser (Kimberley):*** Complaints about the date of distribution of safe paraffin stoves to the people of Lerato Park and Barkly West.

Commentary

The department offered commentary to newspapers and other publishers on the suspension of the CEO (*Pretoria News*), the sale of liquid petroleum gas (*Beeld*), faulty circuit brakes (*EE Publishers*) and the homologation process in South Africa (*Engineering News*).

Exhibitions

The Communications and Marketing Department held an exhibition at this year's annual Rand Easter Show, where staff members interacted with the public and raised awareness of the activities and mandate of the NRCS.

Stakeholder engagements

The department was involved in the following activities during the period under review:

- Presentations made at the South African National Consumer Union (SANCU) quarterly meeting to promote the work of the NRCS
- Facilitating the participation of the NRCS in the Cell C Take a Girl Child to Work campaign and hosting girl learners from Soshanguve Secondary School who were taken through the operations of the NRCS

- Facilitating the participation of the NRCS in the Tracker Men in the Making campaign and hosting boy leaners from Solomon Mahlangu Secondary School in Mamelodi
- In collaboration with the Finance and Operational divisions, the department hosted levy consultation sessions with industry, where the levy model and tariff increase proposals were tabled for 2013
- In partnership with the Sunnyside Police Station Youth Crime Prevention Desk, the department hosted the Summer Holiday Splash campaign to interact with the people of Sunnyside and surrounding areas in Pretoria

NRCS replaced non compliant paraffin stoves of Postdam community members in the Eastern Cape with compliant and safe stoves.

NRCS launched the winter campaign in June 2012 that was followed by visits to various provinces to interact and educate communities about non-compliant and unsafe paraffin stoves. The winter campaign was characterised by door-to-door, educational workshops, community meetings and distribution of compliant paraffin stoves.

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Report of the Audit and Risk Committee

for the year ended 31 March 2013

Mr Sikkie Kajee

Audit and Risk Committee

The Audit and Risk Committee that was in place for the year ended 31 March 2013 comprised of six members: three Non-executive Board members, two external members and the Acting Chairperson, who is also the representative of **the dti**.

The committee convened six times during the period under review.

Committee members	Number of meetings attended
Nick Nicholls	3
Sadhasivan Perumal	6
Nico Vermeulen	6
Dora Ndaba	5
Tshepo Mofokeng	6
Kumaran Naidoo (**the dti** representative)	5
Katima Temba (executive member)	6

Apologies were received for non-attendance of Audit and Risk Committee meetings.

The contract of Mr Nicholls ended on 31 August 2012.

Mr Kumaran Naidoo of **the dti** chaired the meetings of the Audit and Risk Committee from August 2012 until the end of the financial year following the expiry of Mr Nicholls's contract as chairperson. The Board appointed two additional independent members, Mr Sikkie Kajee and Mr Adam Cowell, on 1 April 2013. Mr Kajee was appointed as the incoming chairperson of the Audit and Risk Committee.

The Acting CEO, Chief Financial Officer (CFO), Chief Audit Executive (CAE) and representatives of the Auditor-General are standing invitees at each meeting of the Audit and Risk Committee, which also enjoys direct access to these attendees in the fulfillment of its duties. Other executives and managers are invited to attend for agenda items covering audit findings or business matters that relate to their areas of responsibility.

Responsibility of the Audit and Risk Committee

During the financial year under review, the Audit and Risk Committee complied with its responsibilities arising from Treasury Regulation 27.1.

The Audit and Risk Committee operates in terms of approved terms of reference in the form of the Audit and Risk Committee Charter. It conducted its affairs in compliance with this charter, and discharged all its responsibilities as contained therein.

Effectiveness of internal control

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

From the various reports of the internal auditors and the Auditor-General, the Audit and Risk Committee noted improvement, but noted the continued existence of weaknesses in the internal control environment, as well as instances of non-compliance with laid-down procedures. Management has developed plans to address these weaknesses and the implementation is being monitored by the Audit and Risk Committee and the Board.

The business environment of the organisation was severely disrupted by poor labour relations and organisational restructuring for a large part of the period under review. A CFO was appointed and commenced duty on 1 August 2012. A number of positions were vacant as a result of restructuring, which resulted in certain officials acting in these positions.

An internal audit function has been established internally and is supplemented by resources from a specialist firm until the unit is able to perform all of the work required in terms of the approved Audit Plan. A Chief Audit Executive (CAE) was appointed and commenced duty on 4 February 2013.

As part of the plan to address the Auditor-General's findings, the Chief Financial Officer was appointed to ensure compliance with financial and internal controls and the Chief Audit Executive to ensure an effective internal audit function.

In line with the PFMA, internal audit plans and reports are provided to the Audit and Risk Committee and to management with the intention of providing assurance that key internal controls are appropriate and effective. This is achieved by means of an appropriate quarterly reporting process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. The internal auditors use the organisation's risk framework to prepare their audit coverage plan and to prioritise audit work in the high-risk areas.

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

Quality of management reports

The Audit and Risk Committee notes the content of the quarterly reports prepared and issued by management during the year under review in terms of the PFMA for both finance and performance information, however the quality of these reports require improvement.

Evaluation of the financial statements

The Audit and Risk Committee has done the following:

- Reviewed and discussed with management and the Auditor-General the audited annual financial statements and the Auditor-General's unqualified audit report, to be included in the annual report
- Reviewed the Auditor-General's management letter and management's responses thereto
- Reviewed the appropriateness of accounting policies and practices
- Reviewed significant adjustments, resulting from the annual audit

The Audit and Risk Committee has discussed, concurs with and accepts the conclusions of the Auditor-General on the annual financial statements, read together with the Report of the Auditor-General, and recommends these to the Accounting Authority for acceptance and inclusion in the annual report. The Audit and Risk Committee is pleased to note that the organisation moved from a qualified audit in the 2011/12 financial year to an unqualified audit in this financial year.

Mr Sikkie Kajee
Chairperson of the Audit and Risk Committee

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Report of the Accounting Authority

Introduction

The NRCS was established on 1 September 2008 under the National Regulator for Compulsory Specifications Act, 2008 (Act No. 5 of 2008). The NRCS is mainly 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. Furthermore, the organisation administers regulations that fall under the jurisdiction of other government departments, as per agreement with the respective departments.

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

The Board as controlling body

The NRCS's Board of Directors is appointed in terms of the NRCS Act. In terms of the Board Charter, the Board provides leadership and vision to the NRCS in a way that will enhance shareholder value and ensure long-term sustainable growth of the NRCS.

During the period under review, Mr Nico Vermeulen acted as the Chairperson of the Board.

The Board met 11 times during the year under review, with attendance as follows:

Board meetings

Board member	Number of meetings attended
Nico Vermeulen	11
Funzani Melato	10
Dora Ndaba	11
Suzanna E Moolman	10
Sipho Zikode	6
Sadhasivan Perumal	11
Katima Temba (executive member)	11

Technical Committee

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

In brief, the committee is responsible for the following:

- Considering and advising the Board on proposed compulsory specifications or proposed amendments to compulsory specifications in terms of section 13 of the NRCS Act
- Recommending to the Board what action should be taken on non-compliant commodities or products in terms of section 15(3) of the NRCS Act
- Considering and advising the Board on the Regulations published in terms of section 36 of the NRCS Act, which came into effect on 1 January 2011
- Considering and advising the Board on technical and related matters as outlined in the Trade Metrology Act
- Addressing any further issues as requested by the Minister and that is in the public interest

Four members of the Board serve on the Technical Committee. These are the Acting Committee Chairperson Mr Nico Vermeulen, Ms Funzani Melato, Ms Suzanna E Moolman and Prof Sadhasivan Perumal.

The Technical Committee met its obligations and played a major role in the administration of non-compliant products and the destruction of such products during the period under review.

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

Board member	Number of meetings attended
Nico Vermeulen	7
Funzani Melato	7
Elizabeth (Lillibeth) Moolman	6
Sadhasivan Perumal	7
Katima Temba (executive member)	7

Remuneration Committee

The primary role of the Remuneration Committee is to assist the Board with regard to remuneration and human resources matters. Among other things, it recommends remuneration and human resources-related policies for approval by the Board. The committee met six times during the year under review, with attendance as follows:

Board member	Number of meetings attended
Nico Vermeulen	6
Dora Ndaba: Acting Chairperson	6
Elizabeth (Lillibeth) Moolman	6
Sadhasivan Perumal	6
Katima Temba (executive member)	6

Audit and Risk Committee

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

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

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

The Audit and Risk Committee consisted of three Board members, two independent members and one representative of **the dti**. The Board representatives were Ms Dora Ndaba, Mr Nico Vermeulen and Prof Sadhasivan Perumal. The two independent members were Mr Tshepo Mofokeng and Mr Nick Nicholls (Chairperson until August 2012).

Mr Kumaran Naidoo of **the dti** chaired the meetings of the Audit and Risk Committee from August 2012 until the end of the financial year following the expiry of Mr Nicholls's contract as chairperson. The Board appointed two additional independent members, Mr Sah Kajee and Mr Adam Cowell, on 1 April 2013. Mr Kajee has been appointed as the incoming chairperson of the Audit and Risk Committee.

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

Board member	Number of meetings attended
Tshepo Mofokeng	6
Dora Ndaba	5
Nick Nicholls	3
Sadhasivan Perumal	6
Katima Temba (executive member)	6
Nico Vermeulen	6
Kumaran Naidoo (representative of **the dti**)	5

Other meetings that were held included the following (with attendance as indicated below):

Board member	Number of meetings attended
Nico Vermeulen	5
Funzani Melato	5
Dora Ndaba	10
Elizabeth (Lillibeth) Moolman	5
Sipho Zikode	-
Sadhasivan Perumal	5

Financial performance

Revenue, excluding government grants and interest, amounted to R171.6 million (2012: R159.1 million). Of this, R136.6 million (2012: R125.4 million) was received from industry through levy payments and R35.0 million (2012: R33.7 million) through other services. Grants received from **the dti** amounted to R79.7 million, compared to R37.1 million in the previous year.

An amount of R5.7 million related to other income is disclosed, predominantly from the settlement agreement with the SABS, compared to the R2.9 million in 2012.

A surplus of R37.6 million (2012: R16.2 million) was realised during the 12 months ended 31 March 2013. Cash on hand at the end of the year amounted to R119.4 million, in comparison to R58.1 million in the previous year.

Events subsequent to the statement of financial position

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

Materiality framework

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

Property, plant and equipment

The assessment of 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.

Employment Equity demographics at the end of March 2013						
Age spread	Black	Coloured	Indian	White	Total	Age spread %
>27	7	0	0	0	7	2.4
27–34	91	10	9	5	115	39.1
35–46	70	21	5	13	109	37.1
47–58	10	8	0	25	43	14.6
59–67	1	0	0	19	20	6.8
	61%	13%	4%	21%	294	100.0

Demographic representation				
Black	Coloured	Indian	White	Women
179	39	14	62	112
61%	13%	4%	21%	38%

Risk management

The NRCS endeavours to minimise risk by ensuring that appropriate systems, policies and controls are in place within the organisation. The organisation conducted a risk assessment exercise in May 2012 to identify risks that will impact on the NRCS meeting its key objectives as outlined in the NRCS's Strategic Plan. The organisation managed all identified strategic risks. Beyond the management of strategic risks, the Audit and Risk Committee played a significant role in identifying strategic areas of concern for the organisation. This culminated in the formulation of the Audit and Risk Workshop Matrix that was used to track achievement against the set target.

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

Internal audit

The NRCS considers compliance with applicable laws, regulations, codes and its own ethical standards and internal policies to be an integral part of its business culture. The Internal Audit Department is designed to add value and improve the NRCS's operation. It also provides a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. It follows the business approach, which is risk-based and primarily responsible for the execution of operational and compliance audits, performance audits, financial audits, IT audits and forensic audits.

The internal audit function must, in consultation with the Audit and Risk Committee, prepare the following:

- A three-year rolling strategic Internal Audit Plan based on its assessment of key areas of risk for the NRCS, having regard for its current operations, the operations proposed in its Corporate or Strategic Plan and its Risk Management Strategy
- An annual Internal Audit Plan
- Plans indicating the scope, cost and time lines of each audit in the annual internal audit
- Audit reports directed to the Audit and Risk Committee detailing its performance against the plan, to allow for effective monitoring and intervention when necessary

The Internal Audit function must co-ordinate with other internal and external providers of assurance, in order to ensure proper coverage and minimise duplication of effort. It must assist the Accounting Authority in maintaining effective controls by evaluating those controls and by developing recommendations for enhancement or improvement. It must also assist the Accounting Authority in achieving the objectives of the NRCS by evaluating and developing recommendations for the enhancement or improvement of the processes through which the following can be done:

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

Fraud prevention

The Accounting Authority is responsible for ensuring that the NRCS has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Furthermore, the NRCS is required to conduct risk assessments on a regular basis and to prepare a Risk Management Strategy, which includes a Fraud Prevention

Plan, to be used to direct the internal audit effort. The strategy must be clearly communicated to all employees to ensure that risk management is incorporated into the language and culture of the NRCS.

Information and Communication Technology

The Information and Communication Technology (ICT) Department is responsible for the provision of information technology systems and support for the NRCS. The NRCS's primary consideration in managing its ICT is its sustainability, its performance assurance and the ability of the Information and Systems Management Section to execute the identified NRCS priorities. The NRCS has embarked on the implementation of a customer relations management system and IT infrastructure for the organisation.

Development of a customer relations management system

The NRCS awarded a project for the implementation of a customer relationship management (CRM) system, which will enhance its services to its customers. This will add mobility to inspectors, who will be able to access and conduct their duties remotely, and will improve the dissemination of information. The new system will transform the IT systems of the NRCS from manual systems to a digital processing and storage environment, making services accessible using web-based and mobile technology.

This project will also see increased collaboration with other relevant organisations and government departments in realising an integrated system for sharing information, especially the SARS risk engine. This is in line with the strategic plan for locking out non-compliant commodities for a safer South Africa. The use of information technology to link data sources for business intelligence through collaboration will also assist with the inspection at source and/or manufacturer and also in country of origin. This project will be finalised during the second quarter of the 2013/14 financial year.

Implementation of an ICT infrastructure

The NRCS is in the process of acquiring a new ICT infrastructure that will enable the provision of an efficient, stable and accessible environment. This infrastructure will be hosted through the "cloud" computing technology (in a cloud), which is the key enabler for accessibility for the organisation's staff and clients countrywide and worldwide. The ICT infrastructure has been designed to achieve interoperability and scalability to ensure easy provisioning of new services and communication with other systems. This project is in its final stages and will be finalised during the 2013/14 financial year.

Board approval

The NRCS Board approved the annual financial statements and the annual performance plan for the 2013 financial year.

Mr Asogan Moodley
CEO of the NRCS

Mr Jeff Molobela
Chairperson of the NRCS Board

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Performance Information Report

Strategic Goal 1: To utilise a risk-based approach to maximise the potential compliance with all specifications and technical regulations falling under the mandate of the NRCS.

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Increase compliance to compulsory specifications and technical regulations	**Inspections conducted to eradicate non-compliance within the food and fisheries NRCS-regulated industries**	Percentage of inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation as per the declarations	**Local produced products:** Inspected 100% of all canned fishery and meat products produced	**Local produced products: Annual Inspection target:** 100% of all canned fishery, meat products produced and frozen products as per documented monitoring process	**Local produced products:** Inspected 100% of all declared canned fishery, canned meat and frozen products produced locally Inspection achievements: Canned fish: Inspected 100% of all declared 2 045 requests received Canned meat: Inspected 100% of all declared 3 113 requests received Frozen products: Inspected 100% of all declared 1 032 requests received	
			Imported products: Inspected 100% of all declared canned fish, meat and frozen fishery product consignments	**Imported products: Annual inspection target:** 100% of all declared canned fish, meat and frozen fishery product consignments	**Imported products:** Inspected 100% of all declared 13 588 canned fish, meat and frozen fish-ery product consignments	

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
			Exported products: Inspected 100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments	**Exported products: Annual inspection target:** 100% of all declared exported product consignments	**Exported products:** Inspected 100% of all 11 919 requests received for export fish and fishery, and canned meat prod-uct consignments	
			-	**Annual inspection target:** Facilities inspections: 781	711 land-based fishery facilities and fishing vessels were inspected	Fishing vessels'availability and requests received amounted to only 711 requests
Increase compliance to compulsory specifications and technical regulations	Inspections conducted to eradicate non-compliance within the automotive, electrotechnical and chemical industries/sectors	Number of inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation	Chemical, Mechanical and Materials (CMM): 8 160 inspections conducted	Chemical, Mechanical and Materials: 4 000 inspections	4 314 inspections conducted	7.9% over-achievement was due to concentration on normal inspections and limited participation in the Border Enforcement Project as envisaged, which on average requires more time

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Increase compliance to compulsory specifications and technical regulations	**Inspections conducted to eradicate non-compliances within the automotive, electrotechnical and chemical industries/ sectors**	Number of inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation	7 560 automotive inspections conducted	4 000 automotive inspections	4 326 inspections conducted	8.15% over-achievement was due to concentration on normal inspections and limited participation in the Border Enforcement Project as envisaged, which on average requires more time
Increase compliance to compulsory specifications and technical regulations	**Inspections conducted to eradicate non-compliances within the automotive, electrotechnical and chemical industries/ sectors**	Number of inspections conducted in accordance with the compulsory specification, divisional procedures and applicable legislation	7 600 electrotechnical inspections conducted	4 000 electrotechnical inspections	4 465 inspections conducted	11.62% over-achievement was due to concentration on normal inspections and limited participation in the enforcement projects as envisaged, which on average requires more time

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Increase compliance to compulsory specifications and technical regulations	**Inspections conducted to eradicate non-compliances within the trade metrology domain**	Number of inspections conducted within the trade metrology domain, in accordance with the technical regulations, divisional procedures and applicable legislation	5 438 inspections conducted	4 369 inspections conducted	4 056 inspections conducted	7% under-achievement was due to the roll-out of the winter campaign

Strategic Goal 2: To optimise the scope of NRCS regulatory activities to protect people in South Africa and the environment.

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Build a **regulatory framework** that is sustainable and that protects South African citizens	Finalise new compulsory specifications/ technical regulations and amend (or withdraw) compulsory specifications as per IPAP and other market requirements (as well as reviews)	Number of compulsory specifications and/ or technical regulations projects finalised and approved by EXCO	11 compulsory specifications/ technical regulations approved by the Board	11 compulsory specifications/ technical regulations	12 compulsory specifications or technical regulations finalised and approved by EXCO	

Strategic Goal 3: To inform and educate the industry and consumers regarding their rights and obligations with respect to specifications and technical regulations.

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Increase consumer awareness of non-compliant products, sub-standard products and services	Increased consumer awareness of the NRCS's regulatory mandate and NRCS-regulated industries and regulated commodities	Percentage increase in the awareness score as per the benchmark survey	-	Conduct consumer survey	Survey not conducted	Lack of response from the market on the request for quotation. However, a service provider has been appointed and the survey commenced in May 2013
Increase consumer awareness of non-compliant products, sub-standard products and services	Inform consumers of non-compliances and product confiscations by the NRCS	Percentage of alerts issued for non-compliant products and product confiscations by the NRCS	Issue (100%) alerts for all product recalls and confiscations conducted by the NRCS. All confiscations to be supported by test reports/ scientific evidence as well as product recalls covered	Issue (100%) alerts for all product recalls and all relevant confiscations conducted by the NRCS	Issued 100% (12) alerts for all relevant product recalls and all relevant confiscations conducted by the NRCS	

Strategic Goal 4: To ensure that highly engaged, competent people are in the right place at the right time to enable the effective execution of the NRCS's strategy.

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
Increase effectiveness of human resources (NRCS employees)	Increase in NRCS organisational performance	Percentage implementation of HR Strategy	50% implementation of HR Strategy - milestones	100% implementation of HR Strategy - milestones	80% implementation of the HR Strategy	The variance was due to objections from labour and lack of capacity within the HR Department

Strategic Goal 5: To ensure that the NRCS is a capacitated organisation with 'fit for purpose' resources available to support decision-making and action.

Expected outcomes	Measurable objective/output	Performance indicator /measure	Baseline	2012/13 Target	Actual performance 2012/13	Reason for variance
An enabling enterprise information architecture	Correct and relevant information available at the right time to inform intelligent decision-making and action	Percentage implementation of IT Plan – IT readiness	-	100% implementation of IT Plan	Achieved 96.9% implementation of IT Plan	Delays in the finalisation of the IT infrastructure with the service provider had a major impact on the implementation of the IT services as planned

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Report of the Auditor-General

to Parliament on the National Regulator for Compulsory Specifications

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the National Regulator for Compulsory Specifications (NRCS) set out on pages 70 to 124, which comprise the statement of financial position as at 31 March 2013, the statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.29 of 1999) (PFMA), and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

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

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

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

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the NRCS as at 31 March 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 31 to the financial statements, the corresponding figures for 31 March 2012 have been restated as a result of an error discovered during 2012/13 in the financial statements of the NRCS at, and for the year ended, 31 March 2013.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the report on predetermined objectives of NRCS for the year ended 31 March 2013 as set out on pages 59 to 65 of the annual report.

11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable, and time bound) and relevant as required by the *National Treasury Framework for Managing Programme Performance Information* (FMPPI).

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

Reliability of information

Strategic goal 1

12. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

13. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to goal 1.

14. This was due to limitations placed on the scope of my work due to the absence of information systems and the fact that NRCS could not provide sufficient appropriate evidence in support of the information presented with respect to goal 1. The NRCS's records not permitting the application of alternative audit procedures.

Strategic goal 3

15. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

16. A significantly important target with respect to goal 3 is materially misstated. This was due to the inadequate systems of recording of actual achievements as well as the monitoring of the completeness of source documentation in support of actual achievements.

Additional matter

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

Achievement of planned targets

18. Of the total number of 15 targets planned for the year, 5 targets were not achieved during the year under review. This represents 33% of total planned targets that were not achieved during the year under review. For further details on the extent and reasons for deviations between planned targets and actual performance refer to page 59 to 65 of the annual performance report.

Compliance with laws and regulations

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

Annual financial statements

20. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, commitments and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and Contract Management

21. Certain goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation (TR) 16A6.1.

22. Certain quotations were awarded to bidders who did not submit a declaration of past supply chain practices such as fraud, abuse of SCM system and non-performance, which is prescribed in order to comply with TR 16A9.2.

23. Certain quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for quotations, in contravention of Treasury Regulations 16A6.3(a) and the Preferential Procurement Regulations.

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

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

Expenditure management

26. The Accounting Authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.

27. Effective and appropriate disciplinary steps were not taken against officials who incurred and/or permitted irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA.

Strategic planning and performance management

28. The shareholder's compact did not document the mandated key performance measures and indicators to be attained by the public entity as agreed between the accounting authority and the executive authority as required by TR 29.2.2.

29. The accounting authority did not ensure that the NRCS had and maintained effective, efficient and transparent systems of financial and risk management and internal control as required by section 51(1)(a)(i) of the PFMA.

Internal control

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

Leadership

31. The leadership did not exercise adequate oversight responsibility regarding financial and performance reporting as well as compliance with laws and regulations.

Financial and performance management

32. Inadequate monitoring by supervisors resulted in material misstatements in the financial statements, report on predetermined objectives, and non-compliance with laws and regulations.

OTHER REPORTS

Investigations

33. An investigation conducted by the Public Protector, with respect to various allegations made against previous management, is still ongoing.

Auditor General.

Pretoria
31 July 2013

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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Annual Financial Statements

for the year ended 31 March 2013

Statement of Financial Performance for the Year ended 31 March 2013

	Notes	2013 R	2012 R
Revenue		**251 254 331**	**196 288 632**
Non-exchange revenue		**216 260 092**	**162 557 427**
Levies for compulsory specifications		136 576 092	125 384 427
Government grants and core funding	25.5	79 684 000	37 173 000
Exchange revenue			
Revenue from services rendered	2	**34 994 239**	**33 731 205**
Other income from non-exchange transactions	3	**5 722 333**	**2 858 108**
		256 976 664	199 146 740
Expenditure		**(224 076 515)**	**(185 198 242)**
Advertising and marketing expenditure		(4 160 347)	(2 319 556)
Amortisation of intangible assets	11	(100 137)	(334 451)
Contract services	4	(14 975 126)	(11 727 293)
Depreciation	10,12	(2 169 354)	(1 359 950)
Employee benefit expenditure	5	(148 496 715)	(128 165 906)
Impairment	10,12	(697 078)	-
Office rentals and other operating lease expenses	6	(16 198 508)	(10 825 032)
Tests and sampling		(5 729 490)	(5 259 602)
Travel expenditure		(14 238 396)	(9 157 397)
Other expenditure	7	(17 311 364)	(16 049 055)
Operating surplus for the year		**32 900 149**	**13 948 498**
Interest received	8	4 762 278	2 423 814
Finance cost	9	(28 992)	(154 035)
Surplus for the year	29	**37 633 435**	**16 218 277**

Statement of Financial Position at 31 March 2013

	Notes	2013 R	2012 R
ASSETS			
Non-current assets		**19 877 069**	**20 457 307**
Property, plant and equipment	10	7 840 717	7 716 833
Intangible assets	11	4 583 610	4 595 319
Investment property	12	7 127 900	7 820 313
Deposits	13	324 842	324 842
Current assets		**130 386 627**	**68 193 381**
Trade and other receivables from exchange transactions	15	10 973 739	10 059 494
Cash and cash equivalents	16	119 412 888	58 133 887
Total assets		**150 263 696**	**88 650 688**
LIABILITIES			
Non-current liabilities		**20 024 953**	**16 706 724**
Interest-bearing borrowings	17	42 305	116 439
Employee benefit obligations	18	19 982 648	16 590 285
Current liabilities		**43 153 274**	**22 491 930**
Trade and other payables from exchange transactions	20	26 510 743	8 411 412
Interest-bearing borrowings	17	74 134	140 361
Employee benefit obligations	18	1 494 067	1 361 070
Provisions	21	15 074 330	12 579 087
Total liabilities		**63 178 227**	**39 198 654**
NET ASSETS		**87 085 469**	**49 452 034**
REPRESENTED BY:			
Accumulated surpluses		**87 085 469**	**49 452 034**

Statement of Changes in Net Assets for the year ended 31 March 2013

	Accumulated surpluses R
Opening balance at 1 April 2011	**33 233 757**
Surplus for the year	16 218 277
Accumulated surplus at 31 March 2012	**49 452 034**
Surplus for the year	37 633 435
Accumulated surplus at 31 March 2013	**87 085 469**

Cash Flow Statement for the year ended 31 March 2013

	Notes		2013 R	2012 R
Cash flows from operating activities			**63 857 364**	**21 484 221**
Cash received from customers and government			249 324 467	200 501 034
Cash received from services rendered			34 510 227	34 491 671
Cash received from levies			134 640 045	128 426 291
Cash received from government			79 684 000	37 173 000
Other cash received			490 195	410 072
Cash paid to suppliers and employees			(190 200 389)	(181 286 592)
Cash paid to suppliers			(47 724 277)	(56 874 021)
Cash paid to employees			(142 476 112)	(124 412 571)
Cash generated from operations	22		59 124 078	19 214 442
Interest received			4 762 278	2 423 814
Finance cost			(28 992)	(154 035)
Cash flows from investing activities			**(2 438 002)**	**(4 220 605)**
Purchase of property, plant and equipment	10		(2 352 602)	(2 135 511)
Purchase of intangible assets	11		(85 400)	(2 085 094)
Cash flows from financing activities			**(140 361)**	**(1 444 037)**
Repayment of interest-bearing borrowings			(140 361)	(1 444 037)
Net increase in cash and cash equivalents			**61 279 001**	**15 819 579**
Cash and cash equivalents at the beginning of the period			58 133 887	42 314 308
Cash and cash equivalents at the end of the period	16		**119 412 888**	**58 133 887**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1 SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

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

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

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

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

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

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

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

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

Accrual basis

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

Going concern

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

Judgements, estimates and assumptions

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

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

Asset impairments

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

Residual values

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

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

Useful life

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

The entity uses the following indicators to determine useful lives:

- Expected usage of assets;
- Expected physical wear and tear;
- Technical or commercial obsolescence.

Provisions and long-term employee benefits

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

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

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

The entity is required to record provisions for legal contingencies when the occurrence of the contingency is probable and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Long-term employee benefits are determined by independent actuaries based on assumptions listed in note 18.

Impairment of trade receivables

A debtor is regarded as impaired if there is objective evidence, as a result of one or more events that occurred after initial recognition, that it is impaired. The entity assesses at each reporting date whether there is objective evidence that doubtful debts exist.

1.2 Investment property

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

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

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

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

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

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

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

Cost model

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

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

Asset category	Average useful life
Property - land	Indefinite
Property - building	30 years

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

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

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

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment are initially measured at cost.

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

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

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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

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

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

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

Asset category	**Average useful life**
Motor vehicles	5 years
Office equipment	
- Office furniture	10 years
- Office equipment	5 years
IT equipment	5 years
Leasehold improvements	Term of the lease 5 - 10 years
Laboratory equipment	10 years

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

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

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

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

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

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

1.4 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
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

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

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

Asset category	Average useful life
Computer software, internally generated	3 - 5 years
Computer software, acquired	3 - 5 years

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

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

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

1.5 Financial instruments

Initial recognition and measurement

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

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

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

Subsequent measurement

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Payables from exchange transactions

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

Borrowings

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

Cash and cash equivalents

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

Offset

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

Effective interest rate

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

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.

1.6 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

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

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

a. the period of time over which an asset is expected to be used by the entity; or
b. the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follows:

- Cash-generating assets are assets used to generate service revenue.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation), had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Employee benefits

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

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

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

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

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

A constructive obligation is an obligation that derives from an entity's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

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

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;

- bonus-, incentive- and performance- related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

- as a liability (accrued expense), after deducting any contribution already paid.

  If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

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

Other post-retirement obligations

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

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

Independent, qualified actuaries carry out valuations of these obligations.

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

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

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

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

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26.

1.10 Revenue from exchange transactions

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

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

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

Measurement

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

Rendering of services

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

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

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

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

Interest

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

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

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

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Measurement

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

Levies

Levies are recognised as revenue when:

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

Levies are based on declarations completed by levy payers. If levies are received unaccompanied by a levy return, levies are estimated based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates are made when more reliable information becomes available and are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

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

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds.

Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow.

Revenue is then only recognised once evidence of the probability of the flow becomes available.

1.12 Investment income

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

1.13 Translation of foreign currencies

Foreign currency transactions

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

At each reporting date:

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

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

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

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

1.14 Fruitless and wasteful expenditure

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

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

1.15 Irregular expenditure

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

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

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

1.16 Budget information

The financial statements and the budget are on the same basis of accounting, therefore a comparison with the budgeted amounts for the reporting period have been included in the financial statements.

1.17 Related parties

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

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

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

1.18 Transfer of functions from a 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.

1.19 Commitments

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

1.20 Taxation

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

1.21 Statements of GRAP issued, but changes not yet effective

Statement		Effective date
GRAP 18	Segment Reporting	None announced
GRAP 20	Related party disclosure	None announced
GRAP 25	Employee Benefits	1 April 2013
GRAP 31	Intangible assets (to replace GRAP 102)	None announced
GRAP 105	Transfer of functions between entities under common control	None announced
GRAP 106	Transfer of functions between entities not under common control	None announced
GRAP 107	Mergers	None announced
IGRAP 1	Applying the probability test on initial recognition of revenue (amended)	1 April 2013
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 April 2013
IGRAP 11	Consolidation - Special Purpose Entities	None announced
IGRAP 12	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	None announced
IGRAP 16	Intangible Assets - Website Costs	1 April 2013

The implementation of these statements and interpretations of GRAP is not expected to impact materially on the financial statements of the entity.

	2013 R	2012 R
2. EXCHANGE REVENUE		
Tests and services	7 571 095	7 379 425
Export certification	4 347 421	5 151 603
Vehicle homologation	5 680 378	6 616 342
Letter of authority (LOA)	14 154 949	11 351 851
Transport annual registration fee, VIN etc.	1 736 674	1 789 681
Electrical compliance certificate	849 567	836 101
Gaming: Letter of compliance	654 155	606 202
	34 994 239	33 731 205
3. OTHER INCOME FROM NON-EXCHANGE TRANSACTIONS		
Surplus on transfer of functions from SABS (note 25.1)	5 228 282	2 447 051
- Fair value of non-exchange revenue	5 228 282	2 447 051
SETA refunds	404 661	295 260
Refunds for expenses incurred	85 534	114 812
Realised net foreign exchange profit	3 856	985
	5 722 333	2 858 108
4. CONTRACT SERVICES		
Contract services comprise:	14 975 126	11 727 293
- Risk management and levy audits	2 309 847	2 019 143
- IT Services	5 513 079	5 026 770
- Accreditation	390 320	118 299
- Temporary placements	2 703 253	1 525 032
- HR and labour-related costs	1 210 254	1 149 974
- Strategic planning	627 661	426 831
- National Building Regulations Review Board representation	134 536	376 417
- Travel agency commission	575 035	592 014
- Other contractual services	1 511 141	492 813

	2013 R	2012 R
5. EMPLOYEE BENEFIT EXPENDITURE		
Salaries and wages	116 195 140	96 877 849
Medical aid and other employment benefits	4 791 664	5 676 134
Pension costs	7 900 252	7 318 826
Training costs	2 939 366	2 580 504
Long-service awards	194 000	-
Non-Executive emoluments (note 25.4)	721 572	811 094
Executive board and other key management emoluments (note 25.4)	12 229 361	12 435 144
	144 971 355	125 699 551
Post-employment health care benefits (note 18)	2 132 271	929 543
Long service leave awards (note 18)	1 393 089	1 536 812
	148 496 715	128 165 906
6. OFFICE RENTALS AND OTHER OPERATING LEASE EXPENSES		
Rentals in respect of operating leases (minimum lease payments)	16 198 508	10 825 032
- Land and buildings	15 844 009	9 818 847
- Vehicles	31 737	174 975
- Equipment	322 762	831 210
7. OTHER EXPENDITURE		
Included in other expenditure is the following:		
Auditors' remuneration - current year	725 381	731 695
Auditors' remuneration - prior year	1 205 057	669 386
Bad debts	767 265	1 316 393
- Bad debts written off	738 549	36 430
- Provision for credit losses	28 716	1 279 963
Casual labour	49 987	48 637

	2013 R	2012 R
Conferences	357 781	540 329
Consumables	50 637	77 322
Entertainment	17 354	89 140
FOREX losses	298 208	5 970
Insurance	639 299	454 380
Legal costs	1 848 129	1 962 859
Office and administration expenses	7 759 360	5 257 576
Repairs and maintenance	455 145	2 142 547
Software costs	1 261 257	326 737
Staff recruitment costs	170 299	334 482
Staff welfare costs	1 353 632	1 690 856
Storage of seized goods	147 253	85 531
Vehicle costs	153 649	95 831
Loss on property, plant and equipment due to theft	-	204 251
Loss on derecognition of property, plant and equipment	51 671	15 133
	17 311 364	16 049 055

8. INTEREST RECEIVED

Cash equivalents - financial assets at amortised cost	4 558 092	2 423 814
Trade debtors	204 186	-
	4 762 278	2 423 814

9. FINANCE COST

Other finance cost	541	28 301
Finance lease charges	28 451	125 734
	28 992	154 035

10. PROPERTY, PLANT AND EQUIPMENT

2013	Work in progress	Furniture and office equipment	Laboratory equipment	Operating lease improvements	Vehicles	Total
		R	R	R	R	R
Opening carrying amount	442 010	4 563 903	2 316 246	152 647	242 027	7 716 833
Gross carrying amount	442 010	8 903 872	4 007 310	396 492	413 397	14 163 081
Accumulated depreciation	-	(4 339 969)	(1 691 064)	(243 845)	(171 370)	(6 446 248)
Additions	19 850	1 763 170	569 582	-	-	2 352 602
Depreciation	-	(1 462 456)	(516 802)	(72 402)	(19 392)	(2 071 052)
Impairment		(67 239)	(35 728)	-	-	(102 967)
Derecognised at carrying amounts	-	(12 046)	(7 769)	(31 856)	-	(51 671)
Transfers	66 500	(856 271)	(182 300)	879 987	89 056	(3 028)
Closing carrying amount	**528 360**	**3 929 061**	**2 143 229**	**928 376**	**311 691**	**7 840 717**
Gross carrying amount	528 360	9 773 901	4 022 056	1 376 908	600 270	16 301 495
Accumulated depreciation and impairment losses	-	(5 844 840)	(1 878 827)	(448 532)	(288 579)	(8 460 778)

Included in the value of assets are assets are the following:

- Assets with an estimated net carrying amount of R138 200 are still awaiting final verification before capitalisation.
- Assets with an estimated net carrying amount of R16 151 which are fully depreciated and still on the fixed asset register.
- Assets with a net carrying amount of R6 329 which could not be physically verified.

	Work in progress	Furniture and office equipment	Laboratory equipment	Operating lease improvements	Vehicles	Total
2012		**R**	**R**	**R**	**R**	**R**
Opening carrying amount	-	4 093 269	2 559 733	220 394	121 160	6 994 556
Gross carrying amount	-	9 061 326	3 947 806	396 492	203 459	13 609 083
Accumulated depreciation	-	(4 968 057)	(1 388 073)	(176 098)	(82 299)	(6 614 527)
Additions	442 010	1 153 819	329 745	-	209 937	2 135 511
Depreciation	-	(594 606)	(442 427)	(67 747)	(89 070)	(1 193 850)
Derecognised at carrying amounts	-	(88 579)	(130 805)	-	-	(219 384)
Closing carrying amount	**442 010**	**4 563 903**	**2 316 246**	**152 647**	**242 027**	**7 716 833**
Gross carrying amount	442 010	8 903 872	4 007 310	396 492	413 397	14 163 081
Accumulated depreciation	-	(4 339 969)	(1 691 064)	(243 845)	(171 370)	(6 446 248)

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

	Assets leased under deemed finance leases Furniture and office equipment	
	2013	2012
	R	R
Opening carrying amount	244 384	1 389 169
Additions	-	164 958
Depreciation	(109 832)	(1 309 743)
Closing carrying amount	**134 552**	**244 384**

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

Details of the finance lease obligations are disclosed in note 17.

11. INTANGIBLE ASSETS

	Work in progress	Computer software purchased	Total
2013	R	R	R
Opening carrying amount	3 453 525	1 141 794	4 595 319
Gross carrying amount	3 453 525	3 354 502	6 808 027
Accumulated amortisation	-	(2 212 708)	(2 212 708)
Additions	85 400	-	85 400
Amortisation	-	(100 137)	(100 137)
Transfers	-	3 028	3 028
Closing carrying amount	**3 538 925**	**1 044 685**	**4 583 610**
Gross carrying amount	3 538 925	2 175 854	5 714 779
Accumulated amortisation	-	(1 131 169)	(1 131 169)

	Work in progress	Computer software purchased	Total
2012	**R**	**R**	**R**
Opening carrying amount	2 352 741	491 935	2 844 676
Gross carrying amount	2 352 741	2 370 192	4 722 933
Accumulated amortisation	-	(1 878 257)	(1 878 257)
Additions	1 100 784	984 310	2 085 094
Amortisation	-	(334 451)	(334 451)
Closing carrying amount	**3 453 525**	**1 141 794**	**4 595 319**
Gross carrying amount	3 453 525	3 354 502	6 808 027
Accumulated amortisation	-	(2 212 708)	(2 212 708)

12. INVESTMENT PROPERTY

	2013	2012
	R	**R**
Opening carrying amount	7 820 313	7 986 412
Gross carrying amount	8 000 000	8 000 000
Accumulated depreciation	(179 687)	(13 588)
Depreciation	(98 302)	(166 099)
Impairment	(594 111)	-
Closing carrying amount	**7 127 900**	**7 820 313**
Gross carrying amount	8 000 000	8 000 000
Accumulated depreciation and impairment losses	(872 100)	(179 687)

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

The fair value of the investment property is determined annually by independent valuers, based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. The fair value at reporting date was determined to be R7 127 900.

At present no rental income is earned on the investment property.

13. DEPOSITS

	2013	2012
	R	R
Operating leases	312 000	312 000
Card Fleet Service	10 000	10 000
Municipalities	2 842	2 842
	324 842	**324 842**

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

14. FINANCIAL ASSETS BY CATEGORY

	2013	2012
	R	R
At amortised cost		
Trade and other receivables	10 973 739	10 059 494
Cash and cash equivalents	119 412 888	58 133 887
	130 386 627	**68 193 381**

15. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2013	2012
	R	**R**
Trade receivables	12 783 403	11 681 172
Less: Adjustment to fair value on initial recognition	(317 107)	(411 305)
Trade receivables at amortised cost	12 466 296	11 269 867
Less: Impairment of trade receivables	(2 022 859)	(1 503 023)
	10 443 437	9 766 844
Other receivables	530 302	292 650
	10 973 739	**10 059 494**

NRCS does not hold any collateral as security.

The impairment of trade receivables has been determined with reference to past default experience and the current economic environment.

	2013	2012
	R	**R**
Impairment of trade and other receivables from exchange transactions		
Opening balance	1 503 023	739 216
Amounts received during the period	-	(151 378)
Amounts utilised - written off as bad debts	491 120	(364 778)
Increase in impairment provision	28 716	1 279 963
Closing balance	2 022 859	1 503 023

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 2013, 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
2013	10 443 437	5 522 253	2 917 363	598 741	827 759	577 321
%	100%	53%	28%	6%	8%	5%
2012	9 766 844	5 600 014	2 984 832	269 441	93 778	818 779
%	100%	57%	31%	3%	1%	8%

The impairment of accounts receivable for 2013 was performed on the basis of assessing each debt for impairment, over the total debtors book, while the basis for impairment for 2012 was concentrated on 90 and 120 days.

16. CASH AND CASH EQUIVALENTS

	2013	2012
	R	R
Cash and cash equivalents comprise of the following:		
Reserve bank - Corporation for Public Deposits	96 729 054	46 726 035
Bank balances	22 668 046	11 392 045
Cash on hand	15 788	15 807
Cash and cash equivalents as per cash flow statement	**119 412 888**	**58 133 887**

The carrying amount 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

	2013	2012
	R	R
Finance lease liabilities - office equipment	116 439	256 800
Less: Current portion	(74 134)	(140 361)
Non-current portion	**42 305**	**116 439**

The finance lease liabilities for office equipment bear interest at a rate between 13% and 15,5% for both reporting periods. The liabilities are repayable in total monthly installments of R10 034 (2012: R179 679) over a lease period of 36 months.

Finance leases comprise:		
Total future minimum finance lease payments	128 885	296 500
- Payable not later than 1 year	84 510	167 615
- Payable between 2 and 5 years	44 375	128 885
Less: Unpaid future finance charges	(12 446)	(39 700)
Present value of future minimum finance lease payments	116 439	256 800
- Payable not later than 1 year	74 134	140 361
- Payable between 2 and 5 years	42 305	116 439

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 R134 552 (2012: R244 384) (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. EMPLOYEE BENEFIT OBLIGATIONS

	Opening balance	Provisions made	Benefits paid/ released	Closing balance	Current portion	Total non-current
2013	**R**	**R**	**R**	**R**	**R**	**R**
Post-retirement medical aid	7 989 543	2 234 303	(102 032)	10 121 814	(108 012)	10 013 802
Long service leave awards	9 961 812	2 652 227	(1 259 138)	11 354 901	(1 386 055)	9 968 846
	17 951 355	**4 886 530**	**(1 361 170)**	**21 476 715**	**(1 494 067)**	**19 982 648**

	Opening balance	Provisions made	Benefits paid/ released	Closing balance	Current portion	Total non-current
2012	**R**	**R**	**R**	**R**	**R**	**R**
Post-retirement medical aid	7 060 000	1 022 790	(93 247)	7 989 543	(102 032)	7 887 511
Long service leave awards	8 425 000	2 579 812	(1 043 000)	9 961 812	(1 259 038)	8 702 774
	15 485 000	**3 602 602**	**(1 136 247)**	**17 951 355**	**(1 361 070)**	**16 590 285**

Post-retirement medical aid obligation

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

- The employee was employed prior to 1 September 1998 (within either **the dti** or SABS)
- The employee participated in the Bestmed medical aid scheme for at least 10 years
- The employee retired after the age of 60

Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2013.

Key assumptions used (expressed as weighted averages):

		2013	2012
Discount rate per annum	BESA curve	7,50%	8,50%
Salary inflation	CPIX +1%	7,0%	7,0%
Medical aid inflation	CPIX	6,0%	6,0%
Average retirement age		61,5 years	61,5 years
Active members expected to continue after retirement		97,10%	97,10%
Mortality rate pre-retirement			
Male	Range	0.00188 - 0.02421	0.00188 - 0.02421
Female	Range	0.00113 - 0.01574	0.00113 - 0.01574
Mortality rate post-retirement			
Male	Range	0.003055 - 0.177878	0.003055 - 0.177878
Female	Range	0.001737 - 0.143989	0.001737 - 0.143989

The total outstanding liability amounted to R10 121 814 (2012: R7 989 543) per the valuation performed during March 2013.

	2013	2012
	R	R
Present value of funded obligations	10 121 814	7 989 543

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

Current service cost	227 690	210 000
Interest cost	694 128	637 790
Actuarial (profit)/loss	1 312 485	175 000
Less: benefits paid	(102 032)	(93 247)
	2 132 271	929 543

There are no plan assets for this liability.

Sensitivity analysis
Below are the effects on the central basis liability results for 2013 when the medical aid inflation rate is increased and decreased by 1%:

Change in medical inflation		Liability R	Change in liability %
	+1%	11 890 796	17,5%
	Central	10 121 814	0,0%
	-1%	8 686 455	-14,2%

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 service. Employees' annual leave entitlement is increased with these days. The NRCS's net obligation in this regard is the amount of future benefits that employees have earned in return for their services in current and prior periods. This obligation is valued annually by independent qualified actuaries. Any unrecognised actuarial gains/losses and past service costs are recognised immediately.

Key assumptions used (expressed as weighted averages):

		2013	2012
Discount rate per annum	BESA curve	7,50%	8,50%
Salary inflation	CPIX +1%	7,0%	7,0%

The total outstanding liability amounted to R11 354 901 (2012: R9 961 812) per the valuation performed during March 2013.

	2013	2012
	R	R
Present value of funded obligations	11 354 901	9 961 812

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

Current service cost	1 042 096	961 000
Interest cost	793 241	710 812
Actuarial (profit)/loss	816 890	908 000
Less: benefits paid	(1 259 138)	(1 043 000)
	1 393 089	1 536 812

There are no plan assets for this liability.

Sensitivity analysis

Below are the effects on the central basis liability results for 2013 when the discount rate is increased and decreased by 1%:

Sensitivity to changes in discount rate		Liability R	Change in liability %
	+1%	10 626 440	-6,4%
	Central	11 354 901	0,0%
	-1%	12 179 430	7,3%

19. FINANCIAL LIABILITIES BY CATEGORY

	2013	2012
	R	R
At amortised cost		
Trade and other payables	5 404 800	4 339 797
Interest-bearing borrowings (Finance lease obligation)	116 439	256 800
	5 521 239	**4 596 597**

20. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2013	2012
	R	R
Trade payables	5 404 800	4 339 797
Other payables	4 998 604	85 881
Salary-related accruals	10 010 736	746 431
Income received in advance	680 982	847 914
Trade receivables with credit balances	114 682	54 995
Deferred operating lease accrual - current portion	5 300 939	2 336 394
	26 510 743	**8 411 412**

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

21. PROVISIONS

	2013	2012
	R	R
Performance bonus		
Balance as at the beginning of the year	4 309 923	4 000 000
Amount utilised in the current year	(30 668)	(4 351 891)
Provision raised during the year	952 041	4 661 814
Balance as at the end of the year	5 231 296	4 309 923

No bonuses were paid out during the reporting period. The bonuses paid relate to the prior reporting period.

Leave pay *		
Balance as at the beginning of the year	8 269 164	7 292 107
Amount utilised in the current year	(724 012)	(1 715 248)
Provision raised during the year	2 297 882	2 692 305
Balance as at the end of the year	9 843 034	8 269 164
Total provisions	**15 074 330**	**12 579 087**

* Leave has been encashed subsequent to reporting date to minimise the backlog leave accrued.

22. NOTES TO THE STATEMENT OF CASH FLOWS

	2013	2012
	R	R
Reconciliation of net surplus to cash generated from operations		
Operating surplus for the year	**32 900 149**	**13 948 498**
Adjustments for non-cash items :	**9 806 108**	**6 983 346**
Surplus on transfer of functions from SABS	(5 228 282)	(2 447 051)
Fair value of building rental from SABS	5 228 282	2 447 051
Depreciation on property, plant and equipment	2 071 052	1 193 850
Impairment of property, plant and equipment	102 967	-
Amortisation of intangible assets	100 137	334 451
Depreciation on investment property	98 302	166 667
Impairment of investment property	594 111	-
Bad debts written off	738 549	36 430
Settlement discount	-	(167)
Loss on property, plant and equipment due to theft	-	204 251
Loss on derecognition of property, plant and equipment	51 671	15 133
Fair value adjustment on investment property	-	(567)
Provision for employee benefit obligations	4 886 530	3 602 602
Employee benefits paid from provision	(1 361 170)	(1 136 247)
Increase in provisions	2 495 243	1 286 980
Increase in impairment of trade receivables	28 716	1 279 963
Operating surplus before working capital changes	**42 706 257**	**20 931 844**
Changes in working capital	16 417 821	(1 717 402)
(Increase)/ Decrease in trade and other receivables	(1 681 510)	3 838 760
Increase /(Decrease) in trade and other payables	18 099 331	(5 556 162)
Cash flows from operating activities	**59 124 078**	**19 214 442**

23. COMMITMENTS

	2013	2012
	R	R
Capital commitments		
Commitments for the acquisition of property, plant and equipment and intangible assets (contracted)	1 100 784	6 089 529
Commitments for operating expenditure at year-end	14 617 756	12 435 951

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	6 785 957	3 887 262
- Payable between one and five years	18 979 006	17 996 862
- Payable after five years	-	6 694 585

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

The entity entered into an operating lease agreement with SABS of which the transaction was not at arm's length (refer to note 25.1)

24. FINANCIAL RISK MANAGEMENT

24.1 Foreign currency risk management

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

No forward exchange contracts were entered into during the reporting periods ended 31 March 2013 and 31 March 2012.

24.2 Interest rate risk management

The entity is exposed to interest rate risk, as it places funds in the current and investment account at floating interest rates. Interest rate risk is managed through effective cash management. The net interest income at 31 March 2013 was R4 558 092 (2012: R2 423 814).

The interest rate re-pricing profile at 31 March 2013 is summarised as follows:

	2013	2012
	R	R
	Floating rate	Floating rate
Cash and cash equivalents	119 412 888	58 133 887
% of total bank balances	100%	100%

If interest rates on 31 March 2013 had been 100 basis points (1%) higher or lower (and all other variables remained constant), the surplus for the period would have been R1 194 129 (2012: R581 334) lower or higher.

24.3 Liquidity risk management

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

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

2013	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
Financial liabilities					
Trade and other payables	(10 403 404)	(680 982)	(10 010 736)	(5 415 621)	(26 510 743)
Interest bearing borrowings	(10 034)	(30 102)	(44 375)	(44 374)	(128 885)

2012	Within 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Total R
Financial liabilities					
Trade and other payables	(4 425 678)	(847 914)	(746 431)	(2 391 389)	(8 411 412)
Interest bearing borrowings	(57 242)	(30 102)	(80 271)	(128 885)	(296 500)

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

24.4 Credit risk management

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

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

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

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

At 31 March 2013, the NRCS did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for. The amount in the statement of financial position is the maximum exposure to credit risk.

24.5 Fair value of financial instruments

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

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

Financial instruments not traded in an active market
At 31 March 2013 and 31 March 2012, the carrying amounts of cash and deposits, accounts receivable, accounts payable and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

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

25 RELATED PARTY TRANSACTIONS

25.1 Transfer of functions from related party

On 1 September 2008, the NRCS and the South African Bureau of Standards (SABS) became separate entities. The settlement agreement as captured in the Memorandum of Understanding (MoU) was finalised in April 2010. The MoU specified that the NRCS will not be paying market-related rental, which was effected by a 50% discount on the original rental amount.

The impact of the Memorandum of Understanding on the financial statements is listed below:

	2013	2012
	R	R
Fair value of non-exchange transaction*	5 228 282	2 447 051

*Fair value disclosed for the 2013 reporting period includes an amount of R2 781 231, being the difference between rental at arm's length and rental charged by SABS.

25.2 Purchases from related parties

	Purchases	Impairment of debt	Bad debt written off	Balance outstanding
2013	**R**	**R**	**R**	**R**
National government business enterprises				
SABS	14 513 588	-	-	1 910 966
2012				
National government business enterprises				
SABS	14 021 278			1 103 788

25.3 Sales to related parties

	Sales	Impairment of debt	Bad debt written off	Balance outstanding
2013	**R**	**R**	**R**	**R**
Major public entities				
SABS	51 618	-	-	25 522
2012				
SABS	32 132	-	-	20 200

Levies and other receipts to the value of R189 558 (2012: R153 702) were collected and paid by the SABS to the NRCS.

25.4 Key management personnel compensation

The following emoluments were paid to Board Members:

		Fees as Board and committee member	Reimbursive travel claims	Total
2013	**Notes**	**R**	**R**	**R**
Non-Executive: Board Members				
FA Melato		85 997	5 394	91 391
SE Moolman		84 203	922	85 125
DN Ndaba		125 880	9 480	135 360
Prof. S Perumal		107 472	-	107 472
NMW Vermeulen (Acting Chairperson)		126 764	4 904	131 668
S Zikode	4	-	-	-
		530 316	**20 700**	**551 016**
Non-Executive: Audit Committee Members				
TM Mofokeng		59 150	796	59 946
RG Nichols	5	109 858	752	110 610
K Naidoo	4	-	-	-
		169 008	1 548	170 556
Total non-executive remuneration		699 324	22 248	721 572

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

1. Relieved from acting as Chairperson 31 January 2012
2. Appointed Acting Chairperson 1 February 2012
3. Appointment 3 October 2011
4. **the dti** representatives
5. Term ended 31 August 2012

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

		Basic salary	Bonus/ performance payments	Retirement and medical aid	Other allowances	Total
2013	**Notes**	**R**	**R**	**R**	**R**	**R**
Executive: Board Member						
M Moeletsi - CEO	2	1 255 717	-	118 137	16 000	1 389 854
M Moeletsi - severance package	5	-	-	-	670 256	670 256
K Temba - Acting CEO	2	630 782	-	76 732	275 300	982 814
Executive: Management						
R Mathura - CFO	3	606 596	-	71 933	36 000	714 529
SH Carstens	1	719 485	-	112 041	13 000	844 526
A Hirachund	1	701 665	-	97 353	13 000	812 018
MT Madzivhe	1	704 505	-	80 973	13 000	798 478
P Mazibuko	1	710 268	-	63 737	15 490	789 495
MJ Young	4	682 773	-	116 389	13 000	812 162
FLR Fourie	1	687 941	-	102 627	13 000	803 568
M Marneweck	1	511 993	-	50 349	64 036	626 378
MS Mkhabela	1	543 842	-	49 391	66 883	660 116
CM Ndlovu	1	639 982	-	68 124	77 221	785 327
J Marneweck	1	533 813	-	81 653	11 000	626 466
B Khanyile	1	807 102	-	91 472	14 800	913 374
Total executive remuneration		**9 736 464**	**-**	**1 180 911**	**1 311 986**	**12 229 361**

1. Executives through financial period 1 April 2012 to 31 January 2013 until approval of the new structure
2. Moses Moeletsi on special leave until February 2013
3. R Mathura appointed CFO as at 1 August 2012
4. Resigned 28 February 2013
5. Severance package includes accrued leave pay-out of R189 553

		Basic salary	Bonus/ performance payments	Retirement and medical aid	Other allowances	Total
2012	**Notes**	**R**	**R**	**R**	**R**	**R**
Executive: Board Member						
M Moeletsi - CEO	1	1 216 450	158 957	173 827	27 555	1 576 789
K Temba - Acting CEO	1	533 811	63 208	76 671	113 234	786 924
Executive: Management						
WM vd Merwe - CFO		639 993	140 510	-	104 021	884 524
SH Carstens		732 970	90 566	141 741	31 624	996 901
A Hirachund		650 267	85 332	109 919	60 931	906 449
MT Madzivhe		662 854	80 461	103 248	59 162	905 725
P Mazibuko		747 187	86 956	76 974	33 989	945 106
MJ Young		613 466	99 819	146 720	73 060	933 065
FLR Fourie		676 180	90 203	147 981	64 166	978 530
M Marneweck	2	547 168	63 872	48 414	82 837	742 291
MS Mkhabela	2	568 195	64 411	40 984	101 272	774 862
CM Ndlovu	2	636 495	77 342	83 108	122 435	919 380
J Marneweck	3	97 780	-	7 194	-	104 974
B Khanyile		847 923	-	119 701	12 000	979 624
Total executive remuneration		**9 170 739**	**1 101 637**	**1 276 482**	**886 286**	**12 435 144**

1. M Moeletsi on special leave from 31 January 2012, K Temba was appointed Acting CEO from that date
2. Acting executives from September 2010
3. Acting executive from February 2012

25.5 Government grants and core funding

	2013	2012
	R	R
Received from Department of Trade and Industry	79 684 000	37 173 000

26. CONTINGENT LIABILITIES

The following contingent liabilities exist at reporting date:

- Legal dispute with suppliers of consulting services in which their legal expenses to date are claimed. The estimated claim is R30 000.
- Labour disputes in which re-instatement or monetary compensation is claimed. The compensation is estimated to be R200 000.
- Section 53(3) of the PFMA states that a public entity may not accumulate surpluses unless prior written approval of National Treasury has been obtained. National Treasury granted its approval for the accumulated surplus for two previous financial years to be retained. Application to retain 2012 surpluses has been approved by Treasury, but the application has not yet been submitted for the current reporting period.

	2013	2012
	R	R
27. FRUITLESS AND WASTEFUL EXPENDITURE		
27.1 Fruitless and wasteful expenditure for the period	10 345	424 470
Consists of charges for managers not attending training, duplicate services requested from various suppliers and interest on late payments during the period under review.		
Opening balance	427 919	3 449
Fruitless and wasteful expenditure incurred during the reporting period	10 345	424 470
Less amounts condoned	-	-
Less amounts recovered	-	-
Closing balance	**438 264**	**427 919**

No disciplinary action was instituted, as fruitless and wasteful expenditure could not be traced back to a single person.

	2013	2012
	R	R
27.2 LOSSES THROUGH CRIMINAL CONDUCT		
Computer equipment stolen derecognised at carrying value.	-	34 317
No insurance claims had been submitted due to the low carrying value of assets stolen.		

28. IRREGULAR EXPENDITURE

Treasury Regulation 16A6.1 states that the procurement of goods and services should be through way of quotation, using the Preferential Point system for amounts exceeding R30 000 or through a bidding process where the amounts exceed R500 000, as determined by National Treasury. Contract payments to the value of R33 179 440 (2012: R22 883 728) did not comply with the above procedures.

	2013	2012
	R	R
Opening balance	31 382 764	8 499 036
Add irregular expenditure	33 179 440	22 883 728
Less amounts condoned	(11 251 534)	-
Irregular expenditure awaiting condonation by National Treasury	**53 310 670**	**31 382 764**
Analysis of expenditure awaiting condonation by National Treasury		
Current year	33 179 440	22 883 728
Travel	12 999 029	514 682
Insurance	594 384	422 963
Testing*	6 600 136	7 335 088
Other irregular expenditure	12 985 891	14 610 995
Prior years	20 131 230	8 499 036
Total	**53 310 670**	**31 382 764**

* Included in testing is an amount of R5 159 671 paid to the SABS.

Irregular expenditure is mainly as a result of non-compliance with Treasury Regulations in respect of procuring goods or services by means of price quotations where the value of the purchase exceeded the threshold values determined by National Treasury. Items of irregular expenditure will be subject to investigation and further action, where necessary.

29. BUDGET COMPARED TO THE STATEMENT OF FINANCIAL PERFORMANCE

			2013	2013
	Notes		R	R
			Actual	Budget
Revenue			**171 570 331**	**151 814 856**
Levies for compulsory specifications	29.1		136 576 092	114 559 600
Services rendered	29.2		34 994 239	37 255 256
Other income			5 722 333	3 697 080
			177 292 664	155 511 936
Expenditure			**(224 076 515)**	**(234 475 687)**
Advertising and marketing expenditure	29.4		(4 160 347)	(6 183 108)
Amortisation of intangible assets	29.5		(100 137)	(889 648)
Contract services	29.6		(14 975 126)	(11 590 173)
Depreciation	29.7		(2 169 354)	(4 918 320)
Employee benefit expenditure	29.8		(148 496 715)	(156 167 403)
Impairment			(697 078)	-
Office rentals and other operating lease expenses	29.9		(16 198 508)	(12 130 174)
Tests and sampling	29.10		(5 729 490)	(10 144 659)
Travel expenditure	29.11		(14 238 396)	(12 811 447)
Other expenditure			(17 311 364)	(19 640 755)
Operating (deficit) before government grants and core funding			**(46 783 851)**	**(78 963 751)**
Government grants and core funding	29.3		79 684 000	79 170 000
Operating surplus for the period			**32 900 149**	**206 249**
Interest received	29.12		4 762 278	1 200 000
Finance cost			(28 992)	(130 050)
Surplus for the period			**37 633 435**	**1 276 199**

Budget exceeding actual amounts - material variances disclosed

29.1	**Levies for compulsory specifications**	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. FAI is, however, operating at a loss before allocation of the core funding, due to reliance on resources that are cyclical.
29.2	**Revenue from services rendered**	The services revenue is below the budget due to exports that have declined mainly due to exchange rates and EU markets that are not performing well due to the continuing impact from the Euro zone crisis.
29.3	**Government Grant**	Government Grant receipts marginally exceeded budget due to additional funding provided to NRCS via the Adjustment Budget.
29.4	**Advertising and marketing expenditure**	Underspending on advertising and marketing was mainly due to projects that did not take place as a result of two non-responsive tenders.
29.5	**Amortisation of intangible assets**	Expectation that the CRM system would be in use when the budget was compiled. This system is still work-in-progress and can therefore not be amortised.
29.6	**Contract services**	Over-expenditure in respect of contract services were primarily due to utilisation of contractors where in-house skills were not available to fulfill certain functions, including, but not limited to, the CFO function, Company secretariat function, Industrial relations and payroll functions, the reliance on consulting firms for system support and reliance on experts for numerous industrial relations issues.
29.7	**Depreciation**	Lower than anticipated depreciation was due to the issues the organisation experienced with depreciation and assets in the prior financial year, where NRCS did not have a reasonable basis to budget for depreciation.
29.8	**Employee benefit expenditure**	Underspending on employee costs were mainly due to positions not being filled. The organisational structure for the NRCS was finally approved in January 2013.
29.9	**Office rentals and other operating leases**	Higher than anticipated rental was due to additional storage facilities rented during the year, increasing municipal costs and additional office space.
29.10	**Tests and sampling**	Underspending on testing and sampling was mainly as a result of non-appointment of staff and lower-than expected number of samples submitted for testing.
29.11	**Travel expenditure**	Over-expenditure on travel is attributable to project implementations that are aimed at the ports of entry and borders. Increased costs are also due to increasing foreign commitments that the NRCS has to fulfill.
29.12	**Interest received**	Higher than anticipated interest revenue was due to the increased investment.

Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus with the surplus in the statement of financial performance	
Net surplus per the statement of financial performance	37 633 435
Adjusted for:	
Impairments recognised	697 078
Deficit on the sale of assets	51 671
Increases in provisions	6 049 319
Bad debts written off	738 549
Revenue over-recovered	(22 294 728)
Under-expenditure	(21 599 125)
Net surplus per approved budget	1 276 199

30. RE-CLASSIFICATION OF PRIOR YEAR FIGURES

30.1 The following expenses have been re-classified during the reporting period, as management is of the opinion that the re-classification leads to fair presentation:

Statement of financial performance:

EMPLOYEE BENEFIT EXPENDITURE

		2012	**2012 (Previously reported)**
	Notes	**R**	**R**
Salaries and wages	1	96 877 849	96 868 382
Medical aid and other employment benefits		5 676 134	5 676 134
Pension costs		7 318 826	7 318 826
Training costs	2	2 580 504	2 572 719
Non-Executive emoluments		811 094	811 094
Executive board and other key management emoluments		12 435 144	12 435 144
		125 699 551	125 682 299
Post-employment health care benefits		929 543	929 543
Long service leave awards		1 536 812	1 536 812
		128 165 906	128 148 654

		2012	2012 (Previously reported)
	Notes	R	R
Other expenditure		16 049 055	16 066 307

1. Allocation of commission to salaries and wages
2. Allocation of bursaries to training costs.

30.2 The following liabilities have been reclassified during the reporting period:

	2012
	R
Statement of financial position	
Current liabilities	
Trade and other payables from exchange transactions	
Previously reported	16 680 576
Re-allocation of leave pay provision	(8 269 164)
Reported	8 411 412
Provisions	
Previously reported	4 309 923
Re-allocation of leave pay provision	8 269 164
Reported	12 579 087

30.3 Re-classification of intangible assets

A software development of R 3 453 525 has been re-classified from intangible assets to work-in-progress.

31. PRIOR PERIOD ERROR

31.1 An adjustment was made to revenue in the 2012 reporting period which relates to revenue that was invoiced during the 2013 reporting period for services rendered during the 2012 reporting period. The effect of the prior period error is as follows:

	2012
	R
Statement of financial position	
Revenue from services rendered (Exchange transactions)	
Previously reported	33 114 316
Revenue recorded in correct reporting period	616 889
Reported	**33 731 205**
Statement of financial position	
Current assets	
Trade and other receivables from exchange transactions	
Previously reported	9 442 605
Invoiced in the correct reporting period	616 889
Reported	**10 059 494**

31.2 The useful lives of intangible assets had not been reviewed during the 2012 reporting period. These useful lives have now been reviewed and an adjustment was made as follows:

	2012
	R
Statement of financial position	
Amortisation of intangible assets	
Previously reported	(792 696)
Effect of change in estimate	458 245
Reported	**(334 451)**
Statement of financial position	
Non-current assets	
Intangible assets	
Previously reported	4 137 074
Effect of change in estimate	458 245
Reported	**4 595 319**

32. CHANGE IN ESTIMATE

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

	2013
	R
Increase in depreciation - property, plant and equipment	531 195
Decrease in amortisation - intangible assets	(227 966)
Decrease in depreciation - investment property at cost	(69 498)
	233 731

32.2 During the reporting period the method of calculation of the fair value of the benefit received in terms of the SABS lease was revised. The effect on the Statement of Financial Performance is as follows:

Increase in non-exchange revenue (refer to note 25.1)	2 781 231
Increase in rental paid (refer note 6)	(2 781 231)
	-

33. EVENTS AFTER REPORTING DATE

33.1 Wage increases

Wage negotiations effective from 1 July 2012 were only concluded subsequent to the reporting date on 19 June 2013. Based on the successful conclusion, an accrual for wage increases has been passed as follows:

	2013
	R
Original accrual at 7%	2 084 429
Adjustment for additional increase allowed - basic*	5 057 144
Adjustment for additional 2.2% increase approved	1 236 268
Adjustment for additional housing allowance approved	303 918
Adjustment for no-work-no-pay refund dispute	426 468
Adjustment for agency fees to NEHAWU for non-members	46 341
	9 154 568

*Wage increases concluded at an increase of 8% for levels 7, 8 and 9; 8.5% for levels 10 and 11 and 9% for levels upwards. Management increases (level 6 downwards) still remain unchanged at 7%. This increase also includes a portion for professional development and adjustment for wage disparities.

33.2 Condonement of irregular expenditure

National Treasury condoned expenditure to the value of R11 251 534 subsequent to the reporting date (refer to note 28).

34. APPROVAL OF FINANCIAL STATEMENTS

The audited annual financial statements were approved by the NRCS Accounting Authority and submitted for audit on 31 May 2013.

List of Acronyms and Abbreviations

AFRIMETS	Intra-Africa Metrology System
ARAI	Automotive Research Association of India
BESA	Bond Exchange of South Africa
BRICS	Brazil, Russia, India, China and South Africa
CAE	Chief Audit Executive
CBI	Circuit Breaker Industries
CCFFP	Codex Commission for Fish and Fishery Products
CCMA	Commission for Conciliation Mediation and Arbitration
CDP	Competency Development Programme
CEO	Chief Executive Officer
CFL	Compact fluorescent lamps
CFO	Chief Financial Officer
CIML	International Committeee of Legal Metrology
CMM	Chemical, Mechanical and Materials
COGTA	Department of Cooperative Governance and Traditional Affairs
COMESA	Common Market for Eastern and Southern Africa
COTII	Council of Trade and Industry Institutions
CPIX	Consumer Price Index
CRM	Customer Relations Management
DAFF	Department of Agriculture, Forestry and Fisheries
DOH	Department of Health
dti	Department of Trade and Industry
EAC	East African Community
eNATIS	Electronic National Traffic Information System
EU	European Union
EXCO	Executive Committee
FAI	Food and Associated Industries
FAO	Food and Agriculture Organisation
FLAG	Food Legislation Advisory Group
FMPPI	Framework for Managing Programme Performance Information
GRAP	Generally Recognised Accounting Practice
GTR	Global technical regulation
HR	Human Resources
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IEC	International Electrotechnical Commission
IPAP	Industrial Policy Action Plan
IR	Industrial Relations
ISO	International Standards Organisation
ITAC	International Trade Administration Commission of South Africa
IWVTA	International Whole Vehicle Type Approval
KPA	Key performance area
KPI	Key performance indicator
LOA	Letter of authority
LOC	Letter of certification
LM	Legal Metrology
LPG	Liquid petroleum gas
MAC	Metrology Advisory Committee

MIB	Manufacturers, importers and builders
MoU	Memorandum of Understanding
NAAMSA	National Association of Automobile Manufacturers of South Africa
NDoT	National Department of Transport
NDP	National Development Plan
NBR	National Building Regulations
NBRBS	National Building Regulations and Building Standards Act
NEDLAC	National Economic Development and Labour Council
NEHAWU	National Education Health and Allied Workers Union
NEPAD	New Partnership for Africa's Development
NRCS	National Regulator for Compulsory Specifications
OECD	Organisation for Economic Cooperation and Development
OIML	International Organisation of Legal Metrology
PAA	Public Audit Act
PAC	Project Approvals Committee
PFMA	Public Finance Management Act
RMI	Retail Motor Industry
QMS	Quality Management System
RRD	Regulatory Research and Development
SABOA	South African Bus Operators Association
SABS	South African Bureau of Standards
SADC	South African Development Community
SADCMEL	SADC Cooperation in Legal Metrology
SADCTBTSC	SADC Technical Barriers to Trade Steering Committee
SAIAT	South African Institute of Architectural Technologists
SANAS	South African National Accreditation System
SANCU	South African National Consumer Union
SANS	South African National Specification
SAPS	South Africa Police Service
SARS	South African Revenue Services
SIAT	Symposium on International Automotive Technology
SLA	Service level agreement
SPS	Sanitary and Phytosanitary
SQAM	Standards, Quality, Accreditation and Metrology
TBT	Technical Barriers to Trade
TC	Technical Committee
TR	Technical Regulations
TRC	Technical Regulation Cooperation
UNECE	United Nations Economic Commission for Europe
VC	Compulsory Specifications
WHO	World Health Organisation
WP	Working party
WTO	World Trade Organisation
WTO TBT	World Trade Organisation Agreement on Technical Barriers to Trade
WTO SPS	World Trade Organisation Agreement on Sanitary and Phytosanitary Barriers to Trade

national regulator for compulsory specifications

Head Office
SABS Campus 1,
Dr Lategan Road,
Groenkloof, Pretoria
Telephone: +27 (0)12 428 5000
Fax: +27 (0)12 428 7115

Cape Town Office
Telephone: +27 (0)21 526 3400
Fax: +27 (0)21 526 3451

Durban Office
Telephone: +27 (0)31 533 6700
Fax: +27 (0)31 533 6729

Port Elizabeth Office
Telephone: +27 (0)41 398 6900
Fax: +27 (0)41 398 6944

Bloemfontein Office
Telephone: +27 (0)51 447 4408
Fax: +27 (0)51 430 3485

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