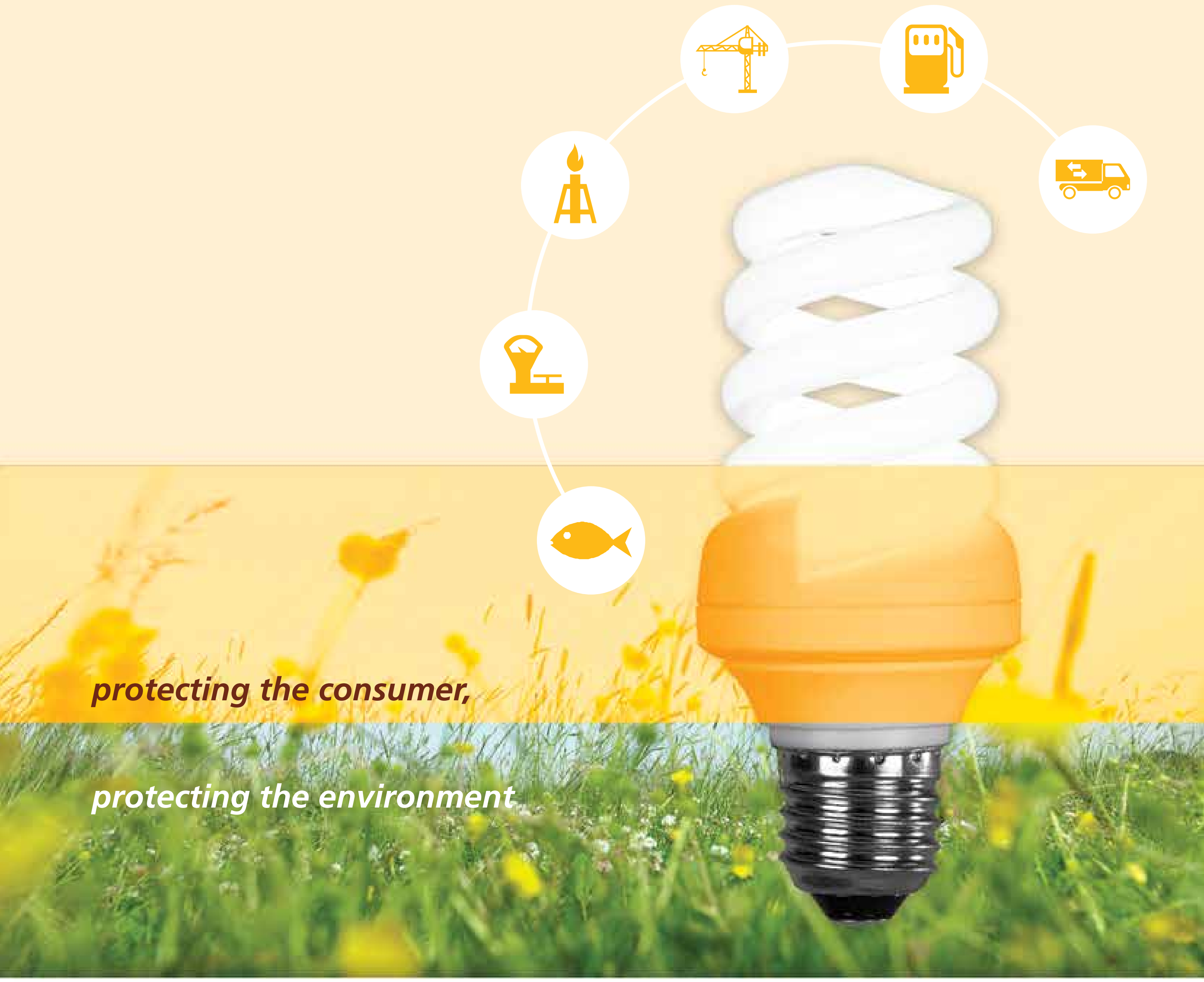
Annual Report

2014/2015



NRCS national regulator for compulsory specifications

Vision

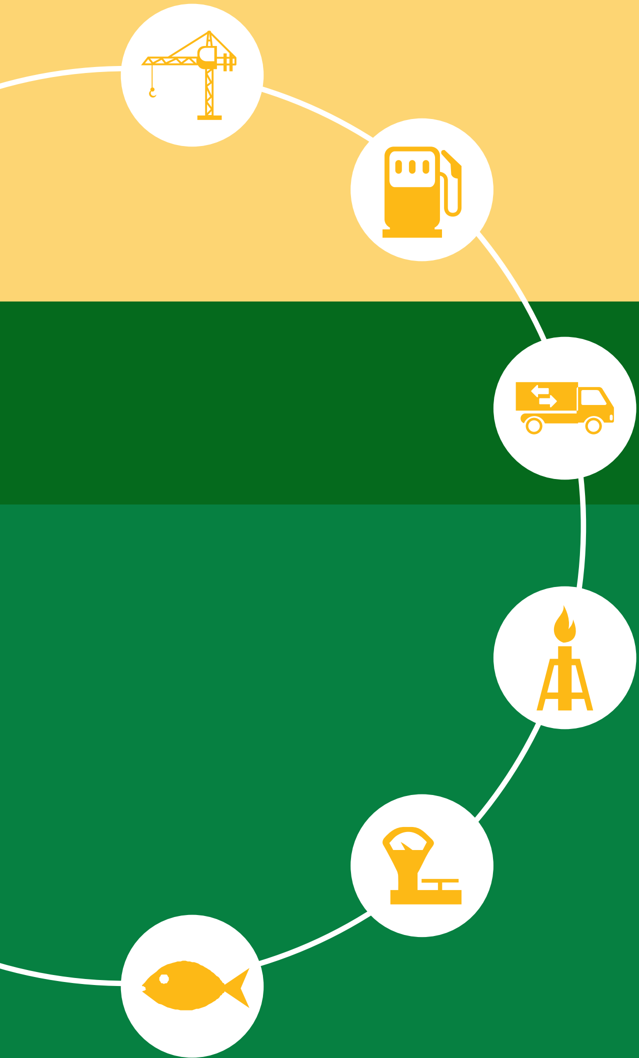
A credible and respected regulator for compulsory specifications and fair trade.

Mission

Dedicated to protecting South Africans by developing compulsory specifications and technical regulations, and maximising the compliance of regulated products and services with compulsory specifications and technical regulations.

Values

- **Professionalism** – the NRCS will act independently and with integrity, without fear or favour.
- **Innovative** – the NRCS will be proactive and respond rapidly, intelligently and appropriately to consumer and market needs.
- **Engagement and collaboration** – the NRCS will lead inclusively, respecting the views and wisdom of its stakeholders.
- **Contribution** – the NRCS will develop a high performance culture where the potential and contribution of all its employees are maximised and where processes and systems are efficient and effective.
- **Informed** – the NRCS will ensure that the decisions and actions of its people are base on evidence, knowledge and competence.



Contents

PART A:

General information

NRCS information

Registered name	National Regulator for Compulsory Specifications (NRCS)
Physical address	SABS Campus, 1 Dr Lategan Road, Groenkloof, Pretoria
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External auditors	Auditor-General of South Africa (AGSA)
Bankers	Absa

Abbreviations/acronyms

AGSA	Auditor-General of South Africa
BCO	Building Control Officer
BCOCC	Border Control Coordinating Committee
CEO	Chief Executive Officer
CFL	Compact Fluorescent Lamp
CFO	Chief Financial Officer
CIML	International Committee of Legal Metrology
CMM	Chemicals, Materials and Mechanicals
CRM	Customer Relations Management
DAFF	Department of Agriculture, Forestry and Fisheries
DoT	Department of Transport
ERP	Enterprise Resource Planning
FAI	Food and Associated Industries
FMPPI	Framework for Managing Programme Performance Information
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
ICT	Information and Communication Technology
IEC	International Electrical Commission
IPAP	Industrial Policy Action Plan
ISO	International Standardisation Organisation
IT	Information Technology
LMA	Legal Metrology Act, Act No. 9 of 2014
LoA	Letter of Authority
LoC	Letter of Certification
MIBs	Manufacturers, Importers and Builders
NBR	National Building Regulations
NBR&BS Act	National Building Regulations and Building Standards Act, Act No. 103 of 1977
NCC	National Consumer Commission
NDP	National Development Plan
NRCS	National Regulator for Compulsory Specifications
NRCS Act	National Regulator for Compulsory Specifications Act, Act No. 5 of 2008
OIML	International Organisation of Legal Metrology
PAA	Public Audit Act, Act No. 25 of 2004
PAC	Project Approvals Committee
PFMA	Public Finance Management Act, Act No. 1 of 1999 (as amended by Act No. 29 of 1999)
PPE	Personal protective equipment
R&D	Research and Development
RR&D	Regulatory Research and Development
SABS	South African Bureau of Standards
SADC	Southern African Development Community
SADCMEL	SADC Cooperation in Legal Metrology
SANAS	South African National Accreditation System
SANS	South African National Standards
SAPS	South African Police Service
SARS	South African Revenue Service
SIDA III	Swedish International Development Cooperation Agency
the dti	Department of Trade and Industry
TR	Technical Regulation
VC	Compulsory Specification

Minister's foreword

Industrial policy remains central to the work of the Department of Trade and Industry (**the dti**) and that of its agencies. Industrial policy focus areas have been documented in the Industrial Policy Action Plan (IPAP), which is now in its fourth iteration, and I am pleased that the technical infrastructure institutions have co-ordinated their efforts in implementing IPAP priorities. The NRCS and other technical infrastructure institutions support industrial development by developing, maintaining and improving standards, compulsory specifications (VCs) and technical regulations (TRs). The technical infrastructure institutions also offer accreditation, testing, calibration, inspection, certification and verification services in order to ensure compliance with standards and regulatory requirements.

As part of IPAP implementation, the newly enacted Legal Metrology Act, Act No. 9 of 2014 (LMA), increases the scope of metrology from trade measurements to incorporate health, safety and environmental measurements. The LMA, which was promulgated in May 2014, expands and strengthens the scope to protect consumers against inaccurate measures, support local industrial competitiveness and enhance protection for both the environment and public health and safety.

The National Building Regulations and Building Standards Act, Act No. 103 of 1977 (NBR&BS Act), which was promulgated more than thirty years ago and which falls under the charge of the NRCS, has not kept pace with developments in the building industry. The department has embarked on a project to review the legislation to make it more effective and responsive to the current environment.

The mandate of the NRCS remains to protect consumers and the environment against unsafe and harmful products. It therefore plays a role in 'locking out' non-compliant products from trade. Targeted source surveillance at the ports of entry into South Africa and within the country, coupled with a visible media campaign to broadcast the seizure and destruction of non-compliant products by the NRCS, has started to bear fruit in preventing non-compliant products from entering into trade. The co-operation and partnerships between the South African Revenue Service (SARS), the South African Police Service (SAPS), other partners and the NRCS, have contributed to this success.

The NRCS continued with its responsibility to facilitate trade in fish and fishery products. As the Competent Authority, the NRCS issued more than 13 000 health guarantees which ensured that all exported fishery and associated products were accepted in foreign markets. The products were certified safe for human consumption.

During the financial year, non-compliant and unsafe products to the value of approximately R548 million were removed from the market. In addition to the negative impact of such products on the health and safety of South African consumers and the environment, non-compliant products have a significant impact on the South African economy, in that these cheaper, non-compliant products impact on the ability to create and sustain jobs.

All industry role players, in particular importers, must adhere to the prescribed rules and regulations and therefore cannot supply the market with unsafe, non-compliant goods.

In conclusion, the NRCS plays a critical role in curbing not only harmful substandard products, but various forms of fraudulent and illegal products – all of which undermine productive capacity and employment growth across a wide range of sectors in South Africa. The department has supported the NRCS and will continue to do so in its endeavour to realise its full mandate.

On behalf of **the dti**, I am grateful for what has been achieved during the year under review. Accordingly, I wish to thank the NRCS management and staff for the work done, but more importantly their commitment to assisting **the dti** in realising its objectives and supporting government priorities. We are mindful of the challenges faced by the NRCS, including those relating to the accounting for revenue, and **the dti** will work closely with the regulator to find a lasting solution to this challenge.

Dr Rob Davies
Minister of Trade and Industry
31 July 2015

I wish to thank the NRCS management and staff for the work done, but more importantly their commitment to assisting **the dti** *in realising its objectives and supporting government priorities.*

CEO's overview

The NRCS, as an agency of **the dti**, aligns itself with the Industrial Development Programme as detailed in IPAP. Industrial policy interventions need cohesion between government, its agencies and all stakeholders to confront the challenges that undermine our economy. The NRCS is committed to working with its stakeholders to contribute to the developmental challenges facing the South African economy.

The implementation of IPAP programmes and action plans require co-ordination and partnerships with other technical infrastructure and government institutions. The NRCS has accordingly built partnerships, inter alia with the National Consumer Commission (NCC), SARS and the SAPS, which have contributed to keeping non-compliant products out of trade.

There are no quick fix solutions for industrial development, especially in the face of extremely strong headwinds such as the impact of the global economic crisis and its aftermath on the world economy, the structural problems which characterise the domestic economy and the constraints and tactical challenges that have to be overcome.

The economic role of the NRCS cannot be divorced from its primary role as a regulator for compulsory specification and TRs. The NRCS' role as a regulator is to ensure that businesses produce, import or sell products or services that comply with safety and environment requirements, and do not fall short of the declared measure. The NRCS is also tasked to provide a regulatory function for the building industry to promote building safety, health, structural stability, and the uniform interpretation and implementation of the NBR&BS Act.

The NRCS' five-year Strategic Plan (2014–2018), as well as its three-year Annual Performance Plan (2014–2016) are aligned with a number of governmental strategic documents, including the National Development Plan (NDP), as well as various policy and action planning frameworks of **the dti**, such as the South African Trade Policy and Strategy Framework and the IPAP.

The NRCS, in accordance with the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), has adopted and implemented a materiality framework which is updated annually as part of the strategic planning process and is included in the Strategic Plan. The NRCS determined its materiality quantum as 0.85% of total revenue.

The Legal Metrology Act

The LMA replaced the Trade Metrology Act, Act No. 77 of 1973, which was outdated and did not provide for the regulation of legal measuring instruments. The LMA increases the NRCS scope from a focus on trade measures, to include health, safety and environmental measurements.

It also provides for a new financing model for legal metrology, and a project is being led by **the dti** to develop this model, which will include type approvals, verifications and market surveillance.

The NRCS, due to limited funding and capacity, cannot implement the new LMA without the support of partners and stakeholders. To this end, the LMA provides for the use of accredited verification bodies and co-operation with other organs of state to implement its provisions. Currently LMA implementation is primarily achieved through government funding.

In addition, the LMA brought with it an amendment to the governance structure of the NRCS. The Board ceased to exist with effect from 1 July 2014, and the Chief Executive Officer (CEO) became the Accounting Authority with immediate effect. Provisions have been made for the appointment of a Deputy CEO, as per the Provisions of the LMA.

Operational performance

Approvals

The NRCS processed 11 896 applications for letters of authority, which is 38% more than the 2013/14 figure of 8 620. Approximately 65% of the applications were for electro-technical products, 30% for automotive products and 5% for chemical, materials and mechanical products.

Non-compliances

Over the past five years, the NRCS has uncovered non-compliant products valued at over R1 billion. During 2014/15 alone, non-compliant and unsafe products to the value of R548 million were removed from the market and approximately R20 million of such products were destroyed in Durban. Non-compliant products included more than 2 million incandescent lamps, compact fluorescent lamps (CFLs), plastic bags, paraffin stoves, motor vehicle lights, brake material, motorcycle helmets, safety glass, fishery products and products falling short of their declared measure. New strategies will be introduced to curb the importation of non-compliant and unsafe products prior to granting the necessary regulatory approval.

The NRCS has adopted dual approaches for its enforcement surveillance activities. A targeted inspection strategy, targeting mostly the port of entry (source), together with a risk-based approach has yielded positive results in curbing various forms of fraudulent and illegal imports, as well as harmful, substandard products imported into the country. All of these, in addition to posing risks to the consumer and environment, also undermine productive capacity and employment growth across a wide range of sectors in South Africa.

The success of the targeted inspection project was augmented by support and enhanced collaboration from stakeholders such as SARS, the SAPS, Border Control Coordinating Committee (BCOCC) the Department of Health and the Department of Agriculture, Forestry and Fisheries (DAFF).

Market surveillance

The NRCS undertook 22 964 in-scope and out of scope inspections across the automotive, chemical, mechanical, electro-technical and metrology industries. In addition, the organisation inspected all declared export consignments, locally produced and imported fishery and associated products for compliance. A total of 13 688 inspections were conducted for export consignments, and local and imported consignments amounted to 7 278 and 8 569 respectively. In promoting South African products and facilitating trade, 11 543 health guarantees were issued for fisheries and associated product consignments destined for the European Union and Far East.

Information technology

In September 2014, a customer relations management (CRM) system was implemented to enable applicants to lodge applications online. Teething problems are still being experienced, however, once fully operational, the system 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 processes from manual systems to digital processing and storage environments, making services accessible using web-based and mobile technology.

The NRCS is in the process of procuring an enterprise resource planning (ERP) system which will provide for the human resources (HR), payroll and financial management requirements of the organisation. Implementation is expected by the end of the 2016/17 financial year.

Facilities

To cover the regulated market efficiently, the NRCS's head office is located in Pretoria, with four regional offices in Cape Town, Durban, Port Elizabeth and Bloemfontein, and a satellite office in Hermanus in the Western Cape.

The NRCS building in Port Elizabeth is currently not occupied, and the condition of the building was assessed during the financial year, with a view to appointing a service provider to renovate the premises in 2015/16. National Treasury approved the retention of the 2013/14 surplus to undertake the refurbishment and to procure a building in Cape Town. The acquisition of the Cape Town office building will be finalised in the 2015/16 financial year.

Human resources

Management invested in staff training programmes to ensure that employees are competent and that the NRCS is up to date with new technologies, methodologies and approaches. Management is also working with organised labour to create a stable and conducive working environment. During the past three financial years, the NRCS has experienced labour instability as a result of remunerative entitlements that arose from its separation from the South African Bureau of Standards (SABS). The settlement agreements resulted in an increase in employment costs, as reported in the Annual Financial Statements. It is anticipated that the employment costs will stabilise in the medium term.

Conclusion

During the year, the NRCS, in particular the Finance Unit, reviewed its operating processes, implemented stronger internal controls and enhanced operating procedures. The unit was assisted in this task by the numerous internal audit reports issued. The Audit and Risk Committee continued to play a significant role in the governance architecture of the NRCS. Management will persist in seeking long-term solutions to the revenue qualification and other findings raised by the AGSA.

We are deeply indebted to the Minister, management of **the dti**, the Audit and Risk Committee, the NRCS management and its committees for their dedicated leadership. Furthermore I wish to express my gratitude to the NRCS employees for the sterling work done during the year.

Mr Asogan Moodley
Chief Executive Officer
31 July 2015

Statement of responsibility and confirmation of accuracy for the Annual Report

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

- All information and amounts disclosed in the Annual Report is consistent with the Annual Financial Statements audited by the AGSA
- The Annual Report is complete, accurate and is free from any omissions
- The Annual Report has been prepared in accordance with the Annual Report Guide for Schedule 3A and 3C Public Entities as issued by National Treasury
- The Annual Financial Statements (Part E) have been prepared in accordance with the PFMA
- The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgments made in this information
- The Accounting Authority is responsible for establishing and implementing a system of internal control, designed to provide reasonable assurance as to the integrity and reliability of the performance information, HR information and Annual Financial Statements
- The AGSA is engaged to express an independent opinion on the Annual Financial Statements.

In my opinion, the Annual Report fairly reflects the operations, performance information, HR information and the financial affairs of the NRCS for the financial year ended 31 March 2015.

Yours faithfully

Mr Asogan Moodley
Chief Executive Officer
31 July 2015

Strategic overview

Vision
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Mission
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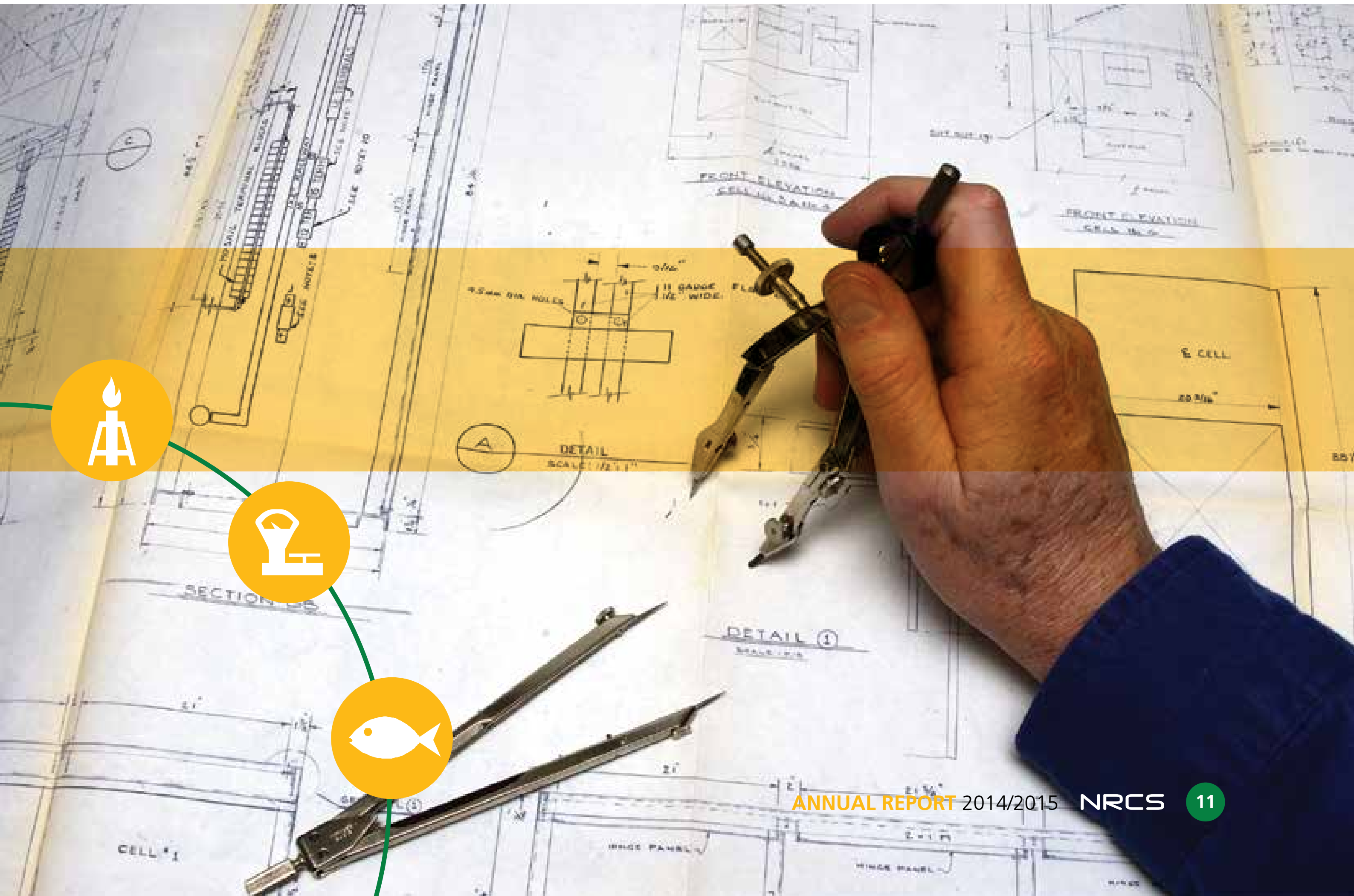


Legislative and other mandates

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

The legislative mandate of the NRCS is derived from:

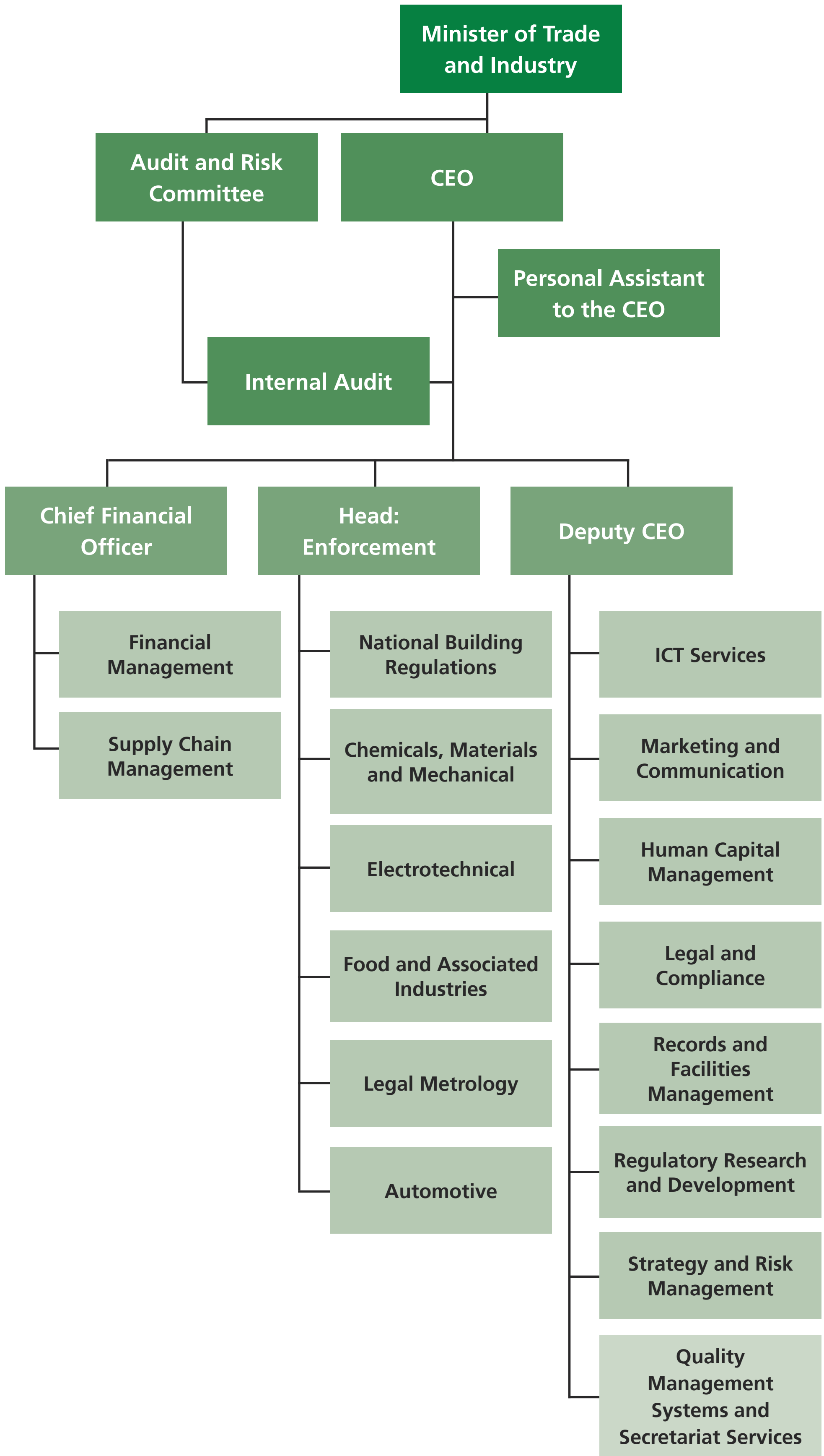
- The National Regulator for Compulsory Specifications Act, Act No. 5 of 2008 (NRCS Act)
- The Legal Metrology Act, Act No. 9 of 2014 (LMA)
- The National Building Regulations and Building Standards Act, Act No. 103 of 1977 (NBR&BS Act)
- The Public Finance Management Act, Act No. 1 of 1999 (PFMA)
-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

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

In addition to its legislative mandate, the NRCS Strategy is aligned with that of **the dti**, specifically the following strategic objectives of the department:

- Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation
- Create a fair regulatory environment that enables investment, trade and enterprise development, in an equitable and socially responsible manner
- Build mutually beneficial regional and global relations to advance South Africa's trade, industrial policy and economic development objectives.

Organisational structure



PART B:

Performance information

Auditor’s report: predetermined objectives

The AGSA currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the Report to Management, with material findings being reported under the Predetermined Objectives heading in the Report on other Legal and Regulatory Requirements section of the AGSA’s Report.

Refer to page 67 of the AGSA’s Report, published as Part E: Financial Information.

Situational analysis

The strategic context within which the NRCS operates is characterised by two significant trends. The first is the increasing trade among economies, as well as the sophistication and activism of consumers, manufacturers and retailers. The second is the increased need for stronger relationships and co-operation with industry, other regulators, law enforcement bodies, regional and international bodies and other stakeholders.

Service delivery environment

Strategic goal one: To develop, maintain and administer compulsory specifications and technical regulations

In order to fulfil its mandate and to protect consumers, the NRCS will increase the scope of regulatory coverage by identifying and developing new compulsory specifications that provide the optimal balance between the needs of consumers and the South African industry. Resources have been dedicated to maintaining a range of compulsory specifications and technical regulations in accordance with IPAP milestones, government priorities, industry requirements and market analyses conducted by the NRCS. Through this process, the NRCS conducts impact and risk assessments to determine the feasibility of developing new compulsory specifications and technical regulations, the revision and amendment of existing ones, or the withdrawal of compulsory specifications or technical regulations in consultation with relevant stakeholders.

Strategic goal two: To maximise compliance with all specifications and technical regulations

The NRCS ensures compliance with compulsory specifications and technical regulations through pre-market approvals, market surveillance and sanctions where non-compliances has been identified. It achieves this through its risk-based approach, border enforcement strategy, inspection at source and benchmarking of business models. A number of regulatory interventions have been implemented to reduce the availability of non-compliant products in the market. These interventions included traditional NRCS on-site inspections, enforcement investigations and targeted ports of entry inspections.

Strategic goal three: To inform and educate NRCS stakeholders on the mandate of the NRCS

The NRCS has implemented a number of awareness programmes as it strongly believes that awareness of its regulatory role and of compliance requirements contributes significantly to voluntary compliance.

Strategic goal four: To ensure an optimally capacitated institution
In building an efficient organisation the NRCS invested in:

- Human resource capacity development
- An IT platform that supports the business
- Sound financial and supply chain management systems
- Sound and effective support structures
- Sound and effective governance structures.

Organisational environment

The NRCS' regulatory role is to ensure that businesses produce, import or sell products or services that are not harmful to consumers or the environment or fall short of the declared quantity of measurement.

The NRCS is also tasked with providing a regulatory function for the building industry to ensure building safety, health, structural stability, and the uniform interpretation of the Act and regulations.

Key policy developments and legislative changes

The LMA replaced the Trade Metrology Act, Act No. 77 of 1973, which was outdated and did not provide for the regulation of legal measuring instruments. The LMA increases the scope of the NRCS from focusing purely on trade measures to include health, safety and environmental measurements.

The LMA brought with it an amendment to the governance structure of the NRCS, and the Board ceased to exist with effect from 1 July 2014. The CEO subsequently became the Accounting Authority with immediate effect. Provisions have been made for the appointment of a Deputy CEO.

Strategic outcome-oriented goals

- Develop, maintain and administer VCs and TRs.
- Maximise compliance with all specifications and TRs.
- Inform and educate our stakeholders about the NRCS.
- Ensure an optimally capacitated institution.

Performance information by objective

Strategic goals, performance indicators planned targets and actual achievements

Strategic Goal 1: Develop, maintain and administer VCs and TRs

Expected outcome: Build a regulatory system responsive to market needs

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Develop a set of VCs/TRs that are responsive to market needs	Number of new, amended and withdrawn VCs/ TRs submitted for Board approval	12 VCs/TRs	12 VCs/TRs	Seven VCs/TRs	41.67% negative variance	One VC was not approved and had to be referred back. Role players failed to agree on the mandate and regulatory costs
Research and Development (R&D) Strategy	Developed and approved R&D Strategy and number of technical publications submitted for Board approval	-	R&D Strategy and two technical publication developed and approved by the Board	R&D Strategy approved by the Accounting Authority, and no technical publications approved by the Board	50% negative variance	Two technical publications were published, but were, however, not approved by the Accounting Authority
Ensure the uniform understanding and implementation of the NBR&BS Act nationally	Administer Review Board: Number of days from the date the NRCS receives a Review Board appeal to the date of Tribunal Report issuance	-	90 days from the date the NRCS receives a Review Board appeal to the date of Tribunal Report issuance	No cases were concluded within 90 days. Eight cases carried over from 2013/14 and three were received during 2014/15. Of these, three were concluded outside of the 90 days. Hearings were held for four cases and were awaiting decision. Eight cases were carried over to 2015/16	100% negative variance	Backlog created due to temporary suspension of Review Board activities
	Develop and implement a National Building Regulations (NBR) Strategy	-	Develop NBR Strategy and obtain CEO approval	NBR Strategy approved by the Accounting Authority	No variance	N/A

Strategic Goal 2: Maximise compliance with all specifications and TRs

Expected outcome: Increased compliance with VCs and TRs

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Automotive						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the automotive sector	Number of working days to process automotive approval applications, from the date of receipt to approval/ rejection	21 working days	120 working days	3 602 applications processed within 120 working days	0.36% negative variance – 13 out of 3 615 processed over a period of more than 120 days	The variance is due to the submission of insufficient documentation and non-admissible test reports
	Number of source inspections (excl. border inspections) conducted in the automotive sector	-	2 400	1 276 in-scope source inspections conducted	In-scope variance: 46.83% negative variance	In line with the NRCS Strategy, resources were used for targeted inspections at all ports of entry. A total of 4 511 inspections were conducted comprising 2 365 in-scope inspections and 2 146 out of scope inspections were no regulated products were found
	Number of border inspections conducted in the automotive sector	-	800	436 in-scope border inspections conducted	45.50% negative variance	
	Number of retail inspections conducted in the automotive sector	-	800	653 in-scope retail inspections conducted	In-scope variance: 18.38% negative variance	
			Total: 4 000	Total in-scope inspections: 2 365	In-scope variance: 40.88% negative variance	

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Chemicals, Materials and Mechanicals (CMM)						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the CMM sector	Number of working days to process CMM approval applications, from the date of receipt to approval/ rejection	21 working days	120 working days	389 applications processed within 120 working days	33.96% negative variance – 200 out of 589 processed over a period longer than 120 days	The variance is due to the increased number of applications, the submission of insufficient documentation and non-admissible test reports
	Number of source inspections (excl. border inspections) conducted in the CCM sector	-	2 240	1 363 in-scope source inspections conducted	39.15% negative variance	The NRCS found a number of non-compliant products on the market, which led to resources being channelled towards retail inspections. An additional 952 out of scope inspections were conducted
	Number of border inspections conducted in the CMM sector	-	1 120	191 in-scope border inspections conducted	In-scope variance: 82.94% negative variance	
	Number of retail inspections conducted in the CMM sector	-	2 240	3 143 in-scope retail inspections conducted	40.31% positive variance	
			Total 5 600	Total in-scope inspections: 4 697	Total negative variance of 16.13% for CMM inspections	

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Electro-technical						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the electro-technical sector	Number of source inspections (excl. border inspections) conducted in the electro-technical sector	447	440	434 in-scope source inspections conducted	1.36% negative variance	In line with the NRCS Strategy, resources were used for targeted inspections at all ports of entry. The NRCS conducted a total of 5 438 inspections comprising 3 863 in-scope inspections and 1 575 out of scope inspections were no regulated products were found
	Number of border inspections conducted in the electro-technical sector	2 233	2 200	1 733 in-scope border inspections conducted	21.23% negative variance	
	Number of retail inspections conducted in the electro-technical sector	1 786	1 760	1 696 in-scope retail inspections conducted	3.64% negative variance	
			Total: 4 400	Total in-scope inspections: 3 863	12.20% negative variance	
	Number of working days to process electro-technical approval applications, from the date of receipt to approval/ rejection	21 working days	120 working days	94.2% processed within 120 days. 1 051 applications were carried over from 2013/14 and 10 013 were received in 2014/15, bringing the total to 11 282. Of these, 7 705 were processed (6 647 approved and 1 058 were rejected). 3 577 were carried over to 2015/16		The variance is due to the increased number of applications, the submission of insufficient documentation and non-admissible test reports

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Legal Metrology						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the legal metrology domain	Number of source inspections (excl. border inspections) conducted in the legal metrology domain	3 245	4 151	4 050 in-scope source inspections conducted	2.43% negative variance	Source inspections were lower than the target due to the increased effort to lock out non-compliant products before market entry and address the problem of pre-packages at retail level. In total 7 366 inspections were conducted, which comprised of 5 262 in-scope and 2 104 out of scope inspections
	Number of retail inspections conducted in the legal metrology domain	811	1 038	1 212 in-scope retail inspections conducted	16.76% positive variance	
			Total: 5 189	Total in-scope inspections conducted: 5 262	1.41% positive variance	
	Number of working days to process type approval applications, from the date of receipt to approval/ rejection	110 working days	120 working days	166 processed within 120 working days	No variance	
	Number of working days to process gaming equipment approval applications, from the date of receipt to approval/ rejection	7 working days	21 working days	732 applications processed within 21 working days	4.44% negative variance – 34 out of 766 of the applications processed over a period longer than 21 working days	The variance is due to the submission of insufficient documentation and non-admissible test reports

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Foods and Associated Industries						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the foods and associated products sector	Percentage of inspections conducted on locally produced canned fish and meat products in accordance with VCs and procedures	Inspected 100% of all declared locally produced canned fish and meat products	100% of all declared locally produced canned fish and meat products	Inspected 100% of all declared locally produced canned fish and meat products Canned fish: 2 842 Canned meat: 4 436	No variance	
	Number of inspections conducted on locally produced frozen products in accordance with VCs and procedures	1 032 frozen fish inspections	1 045 frozen fish inspections	1 034 frozen fish inspections conducted	1.05% negative variance	There was a decrease in the number of frozen fisheries consignments
	Percentage of inspections conducted on all declared imported canned fish, meat and frozen fish product consignments	Inspected 100% of all declared imported products (13 588 inspections)	100% of all declared imported canned fish, meat and frozen fish product consignments	Inspected 100% of all declared imported canned fish, meat and frozen fish product consignments 8 569 inspections	No variance	
	Percentage of inspections conducted on requests received for fish and fishery and canned meat export product consignments	Inspected 100% of all declared exported products and 11 919 imported products inspections	100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments	Inspected 100% of all requests received for export inspections and certificates for fish and fishery products and canned meat consignments 13 668 inspections	No variance	
	Number of inspections conducted on fishery and canned meat processing factories and vessels	711 facility inspections	1 020 facility inspections	1 074 fishery and canned meat processing factories and vessels inspected	5.29% positive variance	The NRCS started inspecting new facilities for oysters during the year, as per agreement with DAFF

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

Expected outcome: Informed stakeholders on NRCS functions

Measurable objective/ output	Performance indicator/ measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
Increased awareness of the NRCS brand and functions	% NRCS brand awareness	-	Conduct a survey to determine the level of brand awareness	Survey concluded in the first quarter	No variance	
Public awareness platforms and events	No. of programme-focused publications	12 internal electronic publications	12 internal and four external electronic publications	10 internal and no external electronic publications published	37.5% negative variance	There were delays in appointing a service provider
	No. of multimedia awareness campaigns	1	2	No multimedia awareness campaigns conducted	100% negative variance	Variance was due to delays in the appointment of a service provider
	No. of stakeholder/ consumer education events and campaigns	10 NRCS consumer education events and campaigns	9 consumer education events and campaigns	13 consumer education events and campaigns conducted	44.44% positive variance	The NRCS partnered with **the dti**, and a platform for some awareness campaigns was created through the Government Communication and Information System

Strategic Goal 4: Ensure an optimally capacitated institution

Expected outcome: Increase effectiveness of human resources (NRCS employees)

Measurable objective/ output	Performance indicator/measure	Audited performance 2013/14	2014/15 target	Actual performance 2014/15	% variance	Reason for variance
A capacitated organisation with relevant systems to support business	Recruitment turnaround times – no. of months between vacancy date (new positions: date of CEO approval) and the date the position is filled	-	Three months to fill a vacancy	15 positions filled outside of the set timeframes	100% negative variance	Inadequate HR capacity
	Percentage of vacancy rate	-	8%	7.10%	No variance	N/A
	No. of employees trained	-	40 employees trained	301 employees trained	652% positive variance	Budget was made available for group courses, including a Competency Development Programme for inspectors and Management Development Programme
Build an information technology (IT) platform that supports and improves business	Percentage system availability	-	96%	98%	2% positive variance	N/A
	Percentage implementation of the CRM system and system availability	-	100% system implemen-tation	100% implemented, but had some teething problems	No variance	N/A
	Percentage implementation of the ERP system and system availability	-	Advertise ERP tender	Tender not advertised. Business case completed and awaiting approval	100% negative variance	The initial submission of the ERP was placed on hold pending architecture assessment of the NRCS information and communication technology (ICT) infrastructure. The assessment has been concluded and the project deferred to next financial year

Business units' performance

Automotive

The Automotive Business Unit is responsible for the administration of VCs for motor vehicles and identified motor vehicle replacement components

Overview

The Automotive Business Unit is responsible for the administration of VCs for motor vehicles and identified motor vehicle replacement components. Additional responsibilities are granted to the NRCS by the Department of Transport (DoT) in terms of the National Road Traffic Act, Act No. 93 of 1996, through which it is appointed as the inspectorate of manufacturers, importers and builders (MIBs) of motor vehicles.

Stakeholders include **the dti**, the national and provincial DoT, industry representative organisations, regional groupings such as the Southern African Development Community (SADC), national and international organisations of which the organisation is a member, such as the Working Party 29, and consumers.

In executing its mandate, the unit works closely with the following strategic partners:

- SARS/Customs Unit in providing effective import control at all ports of entry
- SAPS, where there is evidence/suspicion of illegal vehicles in the market or where illegal conversion of motor vehicles or the illegal use of MIB status takes place
- United Nations Economic Commission for Europe in the harmonisation of compulsory standards with international standards as required in terms of the World Trade Organization Technical Barriers to Trade Agreement
- SADC to further the harmonisation of TRs in the region in support of the SADC Trade Protocol, and wherever possible, to provide assistance to SADC member states with the establishment of infrastructure to implement and administer TRs.

Overall performance

Approvals

In terms of the NRCS Act, the NRCS issues a Letter of Authority (LoA) certificate which permits commodities or products to be sold or services to be rendered in South Africa. The Automotive Business Unit processed pre-market approvals – a confirmation by the NRCS that the vehicle model or vehicle component that was submitted by the applicant, importer or manufacturer of a regulated product, met the requirements of the relevant VC or TR.

The unit homologates whole vehicles, as well as certain vehicle components, including:

- Agricultural tractors
- Buses
- Child restraints
- Heavy commercial vehicles
- Hydraulic brake and clutch fluid

- Light commercial vehicles
- Lights
- Motorcycles, motor tricycles and quadrocycles
- Passenger vehicles
- Replacement brake friction material
- Replacement safety glass
- Towing devices (tow bars)
- Safety helmets for motorcyclists
- Trailers
- Tyres.

During the period under review, the Automotive Business Unit received 4 564 approval applications and 65 applications which were carried over from the previous year. Of these, 3 602 applications were processed within 120 days and 13 outside of 120 days.

Inspections

As the inspectorate of MIBs of motor vehicles, automotive inspectors conduct inspections at the physical location of the MIBs to recommend their registration to the DoT. Inspections are also conducted after approval is granted to confirm conformity of production. During the period under review, the NRCS implemented a risk-based approach to inspections, focusing on products entering South Africa through various ports of entry.

The business unit conducted 4 511 in-scope and out of scope inspections. The huge variance in border inspections was due to the increased presence of automotive inspectors at the ports of entry.

Sanctions

A total of 53 directives were issued to clients for non-compliant products, including lights, brake material, motorcycle helmets and safety glass, valued at R4 million.

Quality management

The Automotive Business Unit underwent a successful South African National Accreditation System (SANAS) audit during the financial year. Even though there were findings raised, these findings were resolved and the business unit maintained its accreditation status. SANAS also approved its expanded accreditation scope which covers a wider range of VCs.

Stakeholder engagement

The Automotive Business Unit actively participated in the following stakeholder interactions:

- Working Party 29 Stakeholders Forum
- DoT/NRCS Automotive Forum
- DoT Vehicle Technical Committee and Abnormal Loads Committee
- DoT Interprovincial Policies and Procedures Meeting
- SAPS Vehicle Crime Forum
- National Association of Automobile Manufacturers of South Africa/NRCS Automotive Forum
- Retail Motor Industry Organisation
- Institute of Road Transport Engineers Technical Committee
- South African Bus Operators Association Technical Committee
- Various SABS Standards Technical Committees.

Challenges

Despite the overall good performance of the Automotive Business Unit, there remain a few challenges that need to be resolved for the NRCS to completely achieve its mandate.

There are certain ‘grey areas’ in the current legislation which allows MIBs to evade certain aspects of continuous compliance after initial approval. The NRCS has identified areas of concern which are being addressed in collaboration with the DoT.

There are few local accredited testing facilities for certain products, such as tyres, motorcyclist safety helmets, brake fluid and category L vehicles. Further, where such facilities exist, their testing capabilities, especially regarding brake friction material, is continuously being challenged by the industry. The NRCS is working closely with industry association and the SABS to resolve these challenges.

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

The lack of awareness among industry role players and the public of NRCS processes and regulatory requirements has a negative impact when registering motor vehicles as returning residents. The majority of the applicants for vehicle LoAs are individuals who are not familiar with the applicable regulatory requirements.

The CMM Business Unit is responsible for the administration of VCs that cover specific industry sectors

Chemicals, Materials and Mechanicals

Overview

The CMM Business Unit is responsible for the administration of VCs that cover the following industry sectors:

- Personal protective equipment (PPE): safety footwear and respiratory protective devices
- Flotation devices and swimming aids, firearms and associated products (firearms and shooting ranges)
- Flame-producing devices (paraffin stoves, heaters and cigarette lighters)
- Health-related products (microbiological safety cabinets and disinfectants)
- Construction materials (cement and treated timber)
- Products that affect the environment (plastic carrier bags and coal-burning stoves).

The following regulatory functions are performed on behalf of the partner government departments:

- Department of Health – regulation of microbiological safety cabinets, disinfectants and detergent disinfectants
- Department of Labour and Department of Mineral Resources – regulation of various types of PPE, such as respirators and breathing apparatus
- Department of Energy – regulation of paraffin stoves and heaters
- SAPS – regulation of shooting ranges and firearms
- Department of Environmental Affairs – regulation of plastic bags and plastic carrier bags.

The activities of the CMM Business Unit, in the administration and maintenance of VCs, involve the processes of pre-approval, market surveillance inspection, sampling and sanctioning.

Overall performance

Market surveillance

The CMM Business Unit conducted 5 649 in-scope and out of scope market surveillance inspections.

Approvals

Pre-market approvals are issued for regulated products that may be approved before products are brought into the market. These pre-approvals are issued after evaluating submitted evidence of compliance against the relevant VCs. A total of 341 approval certificates were issued in respect of various commodities regulated by the business unit. The unit rejected 70 of the 589 applications received during the review period. Applications were rejected because of non-submission of prescribed documents and corrections were required from the applicants. Examples of these identified corrections are incomplete or partial test reports submitted with the application. It must be noted that obtaining test reports is a lengthy process, especially for importers. The process involves the importer liaising with his supplier on the completeness of the report, and the supplier consequently taking corrective measures to resolve the outstanding tests, which depends on the workload of the accredited laboratory.

Sanctions

During 2014/15, 155 directives were issued to manufacturers and importers of non-compliant goods for failure to comply with the health and safety requirements as detailed in the various VCs. This includes, but is not limited to, failure to meet marking requirements of products, such as non-pressurised paraffin stoves and heaters, that do not fulfil the safety requirements of the relevant VC. The total value of non-compliant products amounted to R3.7 million.

Non-compliance

Non-compliant products that were confiscated and destroyed in Durban and Cape Town included:

- Non-pressurised paraffin stoves and heaters
- Cigarette lighters
- Plastic carrier bags
- Disinfectant and detergent-disinfectants
- Swimming aids (assisting with movement through water while learning to swim)
- Respirators (dust masks).

Stakeholder engagement

As part of the NRCS stakeholder engagement strategy, the unit held 11 industry meetings. These meetings were aimed at addressing industry concerns and also provided a platform to inform industries of changes in administrative requirements of the various VCs. The unit also met with representatives of the treated timber industry to discuss the implementation of the Treated Timber VC. A meeting was further held with the National Sea Rescue Institute and the Marine Industry Association of South Africa to discuss the approval process of personal flotation devices. The challenges faced by the industry revolves around the limited number of suppliers of approved lifejackets (fit for purpose) in the South African market.

Highlights

A joint exercise was held with SAPS Border Police and Brand Attorneys in the Western Cape which resulted in the confiscation of non-compliant goods to the value of R350 000. The non-compliant products confiscated during these joint exercises include flame producing devices, plastic carrier bags and swimming aids. The SAPS Border Police, as part of its strategy, invited representatives of law firms that represent large brands such as Hewlett Packard, to participate in the planned joint exercises. However, it must be noted that the majority of the confiscated goods comprised non-compliant electro-technical products. Follow-up meetings were held with SAPS Border Police, City of Cape Town, brand holders and brand attorneys regarding the establishment of a Counterfeit Coalition. Joint surveillance exercises were also undertaken in Fordsburg, Crown Mines and Marabastad. Non-compliant products to the value of R79 660 were confiscated, including plastic carrier bags and flame producing devices.

The industry raised concerns with the NRCS regarding non-compliant plastic carrier bags in KwaZulu-Natal. As a result of these concerns, a project to gather market intelligence on non-compliant plastic carrier bags and the identification of possible hotspots was implemented. The aim of the project was to ensure that the NRCS positively impacts on this industry, and reiterate its vision of a safe, competitive and prosperous South Africa. The project on plastic carrier bags and flat bags was conducted across South Africa, with the majority of the business unit's inspectors focusing on a specific province for a six-week period. This exercise resulted in an influx of approval applications as importers and local manufacturers hastened to obtain approval for their plastic carrier and flat bags. More than 2 million non-compliant plastic carrier bags were removed from trade during the first two weeks of the project.

Challenges

As a result of the implementation of the revised VCs for safety of footwear and plastic carrier and flat bags, the CMM Business Unit is stretched to capacity due to the influx of applications from importers and local manufacturers to obtain approval for regulated goods. This is directly as a result of our surveillance activities at the ports of entry, as well as new VCs that were implemented during the period under review.

Goods removed from trade are stored at NRCS warehouses, in addition to those stored at the various container depots. Storage of non-compliant goods requires stringent control measures in order to ensure that confiscated goods are not inadvertently destroyed or misplaced.

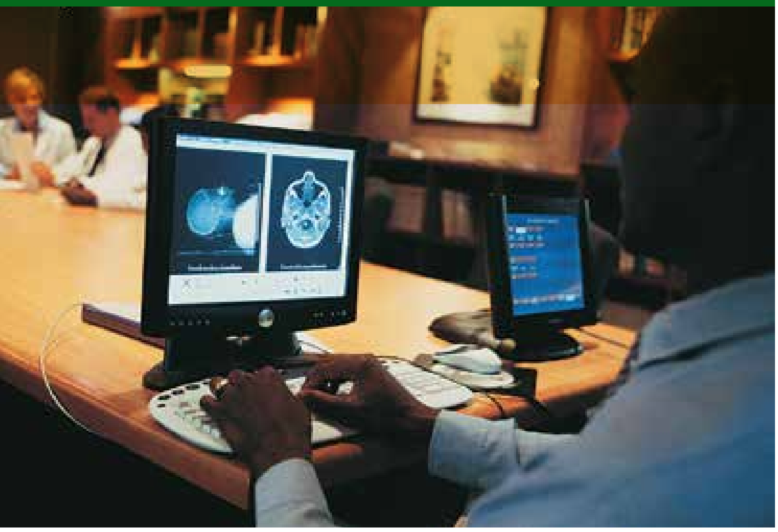
The business unit will implement all outstanding/dormant VCs during the 2015/16 financial year in order to further strengthen regulatory surveillance.

Conclusion

The CMM Business Unit conducted 5 649 inspections, although some of the inspections were out of scope. The successes in eradicating non-compliances in the market highlights the importance of conducting joint exercises with other government agencies to continuously maintain compliance within the South African market. Non-compliant products remain a problem and still find its way into the poorer consumer market. It is therefore imperative that the NRCS not only finds ways to reach and educate the consumer, but also to make it easier for the consumer to identify a compliant product. Multiskilling and effective management continues to be tools that will support the business unit to effectively protect consumers, thereby contributing positively to the NRCS fulfilling its mandate.

Electro-technical

The NRCS regulates various categories of electrical and electronic products



Overview

The NRCS regulates various categories of electrical and electronic products, which are covered by 17 VCs. The products range from household appliances, power tools, ICT equipment, audiovisual equipment and lighting components, to other electrical components such as plugs, adaptors and switches. In addition, the business unit enforces regulations from other government departments, such as the Department of Labour, with regard to the approval of components for fixed electrical installations, and the Independent Communications Authority of South Africa with regard to the electromagnetic compatibility and interference of certain electrical and electronic apparatus.

The unit's business processes include pre-market approval (before products enter the market), conducting market surveillance inspections, sampling of products from the market for testing at third party accredited laboratories, and the administering of sanctions on non-compliant products in terms of Section 15 of the NRCS Act.

The unit's market surveillance focus shifted towards locking out non-compliant products at source, including the ports of entry, due to the large quantities of regulated products being imported into South Africa. During the period under review, 56% (2 835) of the total inspections were conducted at the various ports of entry, compared to 37% (1 605) during 2013/14, and 23% (1 018) in 2012/13.

The NRCS made significant progress in preparing for the enforcement of the energy efficiency requirements of electro-technical products, as mandated under the National Energy Efficiency Strategy of 2012 and IPAP. In this regard, the NRCS actively participated in national programmes on energy efficiency and undertook capacity building initiatives, which included international training and benchmarking of best practices in the United Kingdom and South Korea. The new VCs on the energy efficiency of electric and electronic apparatus, including incandescent lamps and electric geysers, will be enforced in the 2015/16 financial year.

Overall performance

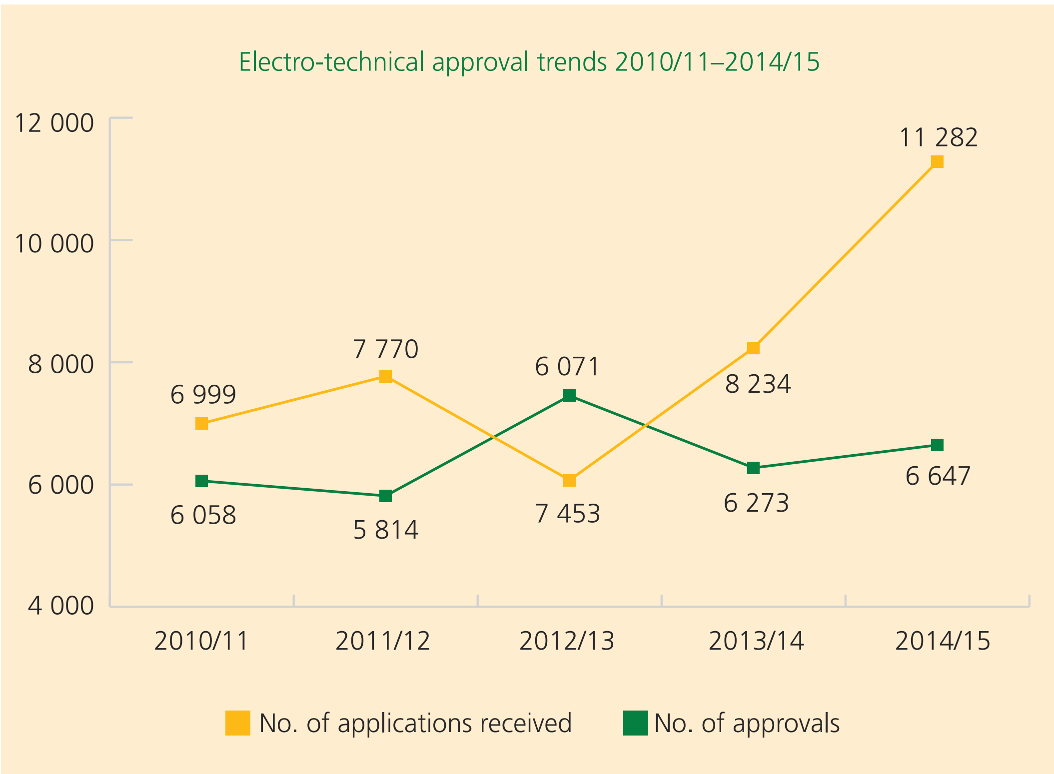
Inspections

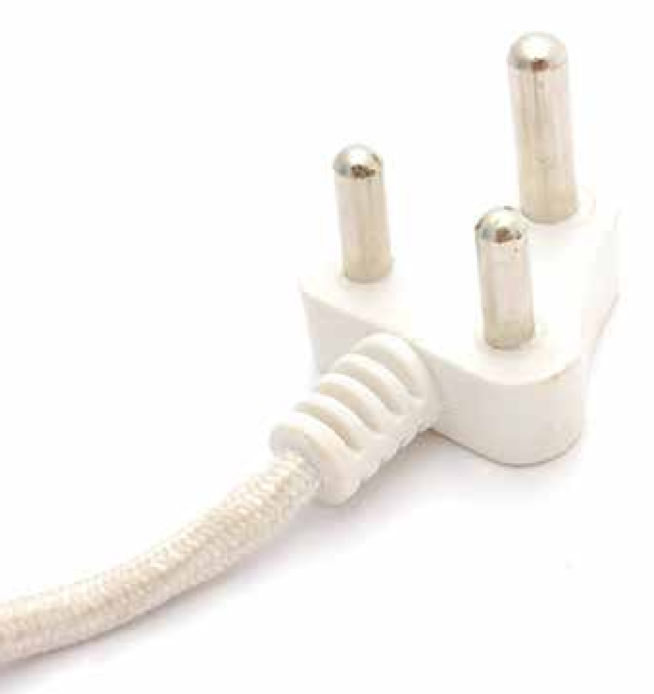
The unit conducted 5 438 in-scope and out of scope market surveillance inspections. Approximately 52% the total inspections were conducted at ports of entry, 8% at source for products manufactured within South Africa, and 39% at retail outlets. In ensuring compliance, 156 samples were taken from the market and sent for testing at accredited laboratories.

Approvals

The volume of approval applications continued to increase – from 8 234 in 2013/14 to 11 282 in the current financial year. The unit granted 6 518 LoAs and 129 regulatory certificates of compliance, and rejected 1 058 applications. The rejections were for various reasons, including wrong test reports being submitted, wrong standard used for testing, and non-compliance with requirements of the VCs. The number of approvals granted increased by approximately 6% when compared to the previous year, and over 90% of the approvals were processed within the targeted turnaround time of 120 working days.

The approval trends (shown in the graph below) indicate a 37% increase in applications received compared to the previous financial year, and 61% compared to 2010/11. It should also be noted that 1 051 applications were carried over from the previous financial year, and 3 577 will be carried over to 2015/16.





Sanctions

A total of 687 directives were issued for non-compliant products, with approximately 58% of them being served within the target turnaround time of 72 hours. The majority of the non-compliant products were found at ports of entry.

Non-compliant products included more than 2 million incandescent lamps and CFLs, adaptors, battery chargers, plugs and hair clippers. Over 90% of these non-compliances were attributed to failure to comply with the administrative requirements of obtaining the LoA prior to importing these products.

Stakeholder engagements

The business unit participated in various local, regional and international engagements. International engagements and stakeholder meetings included International Electrical Commission (IEC) meetings in Japan, Canada, and Sweden, which focused on mutual agreements relating to test reports, approval of products, regulatory issues, certificate infringements and interpretation of standards, among others.

South Africa plays a leading role in sharing experiences and undertaking capacity building in the SADC region. For this reason, NRCS representatives actively participates in various regional forums, including the SADC Technical Barriers to Trade Stakeholders Committee (as secretariat and regional co-ordinator) and the Southern African Power Pool, a regional initiative to pool electrical energy resources and ensuring energy efficiency.

On the local front, the Electro-technical Business Unit held four industry meetings and several stakeholder engagements with government agencies, specifically those responsible for ports of entry, digital migration, and energy efficiency.

Highlights

Non-compliant product destructions

During the year under review, non-compliant products in excess of R20 million were removed from trade. Of these, products to the value of R8.5 million from KwaZulu-Natal and Eastern Cape were destroyed in Durban on 11 December 2014. The products destroyed included more than 500 000 CFLs and incandescent lamps.

Joint operations with other government agencies

The business unit participated in several joint operations at the ports of entry, retailers, and roadblocks on national highways, with partner entities such as SARS and SAPS. One such operation, which took place in Kimberley in conjunction with SAPS Crime Intelligence, found 6 195 non-compliant goods worth over R100 000, which were removed from trade. The non-compliant products found included incandescent lamps, cord sets, chargers, glue guns and CFLs.

Maintenance of SANAS accreditation

The business unit was audited by SANAS in October 2014, and successfully maintained its South African National Standards (SANS)/ International Standardisation Organisation (ISO)/IEC 17020 accreditation status as a competent inspection body.

Challenges

The unit experienced challenges stemming from the high cost of the destruction of CFLs and incandescent lamps. The option of returning the products to countries of origin is being explored. The increasing number of approval applications also continued to be a challenge.

In mitigating these challenges a risk-based approach will be deployed in the approvals section so that low risk applications can be identified and fast-tracked. Furthermore, the costs of storing non-compliant products removed from the market remained high.

Conclusion

The business unit conducted 5 438 inspections, with 24% of the total inspections finding non-compliant products worth over R20 million. Approximately R8.5 million worth of non-compliant electro-technical products were destroyed in Durban.

Whilst the number of approvals granted increased by 6% when compared to the previous year, the number of applications received increased by 37% over the same period. Challenges in meeting the approvals turnaround times persisted, with approximately 90% of the applications processed within the targeted 120 days. Measures, including working overtime and the implementation of a risk-based approach, have been introduced to remedy this situation.

Foods and Associated Industries

The FAI Business Unit is responsible for the protection of the health and safety of consumers

Overview

The Food and Associated Industries (FAI) Business Unit is responsible for the protection of the health and safety of consumers by administering VCs relating to canned meat and canned fish products, frozen fish products, smoked snoek, aquacultured live abalone and live oyster which are traded nationally and internationally. The NRCS is the competent authority for the issuing of health guarantees to various countries and trade groupings. At national level, it works in close co-operation with several other legislators in the food environment, including the Department of Health and DAFF.

The NRCS actively participates in both the local and international (through Codex Alimentarius) standards setting processes. It has entered into various technical co-operation agreements with countries trading fishery products with South Africa, which act as preventative measures to ensure that safe products with the necessary health guarantees are obtained from these countries. The business unit also collaborate with a number of regulators and stakeholders to keep its inspectors abreast of new food technologies at national and international level. These regulators and stakeholders include the South African Association for Food Science and Technology and the International Association of Fish Inspectors.

A risk-based approach to surveillance was adopted in order to improve efficiency and the effectiveness of FAI processes. Port of entry surveillance entails the profiling of various containers entering South Africa and the inspection of these containers at the point of entry. Imported fishery products are taken to various cold stores and warehouses where products are sampled for inspection at the NRCS laboratories. Source/targeted enforcement was introduced as a measure to prevent the entry of non-compliant products into trade in South Africa.

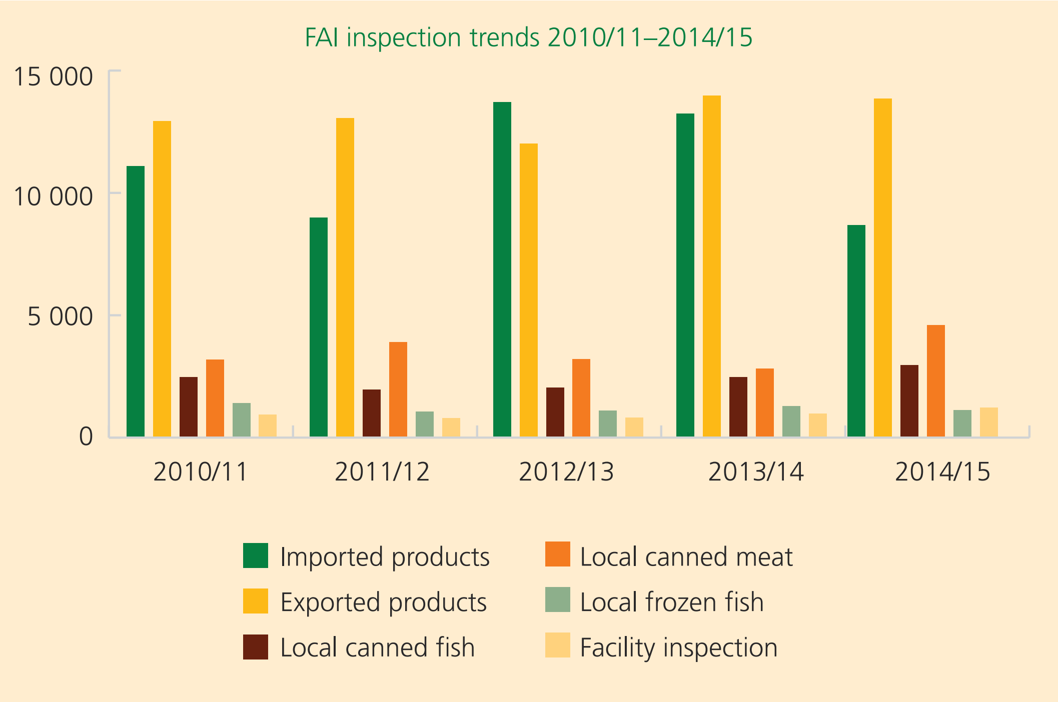
Overall performance

The unit's overall performance for the 2014/15 financial year remained steady when compared to the average of the past four years, and it met most of the targets set, with the exception of frozen fisheries were the productions were less than anticipated. The regulatory and inspection methodologies rest firmly on the assessed risk profiles of the various food commodities it regulates, and therefore 100% of inspections on high risk products, such as canned and imported products from countries where there is no official inspection agreement, are conducted, while low risk products are monitored with a predetermined surveillance programme at factory level.

Internal audits were conducted to measure the unit's performance in terms of its documented quality management system (based on ISO/IEC 17020). Furthermore, an external audit was conducted and the unit successfully maintained its SANAS accreditation.

Inspections

The business unit conducted 30 549 inspections on export, local and imported fishery consignments and productions. It noted a decline in the number of imported products when compared to the previous year, while number of inspections for locally produced canned fish, canned meat and facilities increased. This increase can be attributed to an increase in the number of local fisheries production facilities.



Health guarantees

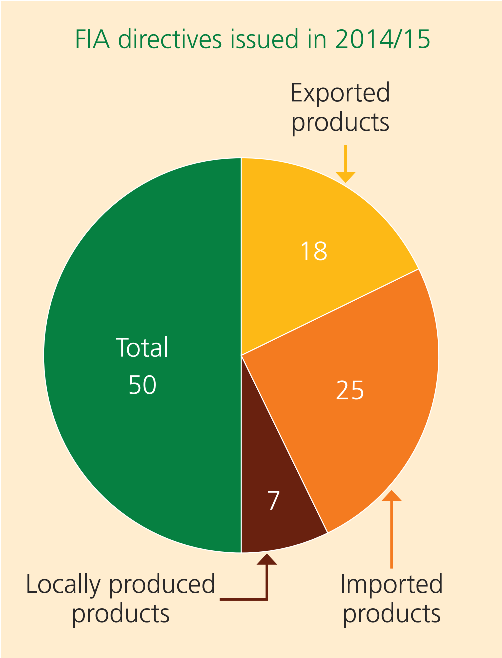
The NRCS is the competent authority for fish and fishery products in South Africa, and is acknowledged as such by the European Union and People's Republic of China, among others. Health guarantees are certificates that are issued by competent authorities, such as the NRCS, which comply with international food LAN (Codex Alimentarius) for food products, or the laws of the importing country. These health guarantees are issued for exported products, including chilled fish, frozen fish, canned fish, canned abalone and live lobster, abalone and oysters. The unit conducted 13 668 inspections on product consignments exported to various countries.

Non-compliances

Non-compliant products are strictly monitored by inspectors through a documented process to ensure that industry adheres to the stipulated requirements and timeframes.

Non-compliance certificates were issued for products that did not comply with the requirements of the relevant VCs, labelling requirements as specified in the Foodstuffs, Cosmetics and Disinfectant Act, Act No. 54 of 1972, and relevant SANS standards. Non-compliance certificates were also issued for productions or consignments that were found to be of substandard quality or which did not fully comply with certain non-food safety-related quality VC requirements. Sales permits, which stipulate prescribed sales conditions, were issued for these products.

The unit issued 106 non-compliance certificates for products found to be of substandard quality, and 213 for products that were found to be not for sale. In addition, it issued 50 directives for products that were not safe for human consumption. The non-compliant products were either relabelled, destroyed by industry at their own cost (under the supervision of NRCS), or returned to the country of origin.



National and international liaison

To ensure that it stays abreast of international developments, the FAI Business Unit participated in various technical committees and meetings. The unit participates in the international standards setting process, as NRCS is directly involved with Codex Alimentarius by:

- Leading the Codex Committee for Fish and Fishery Products
- Actively participating in the Codex Committee on Food Import and Export Inspection and Certification Systems
- Actively participating in the Regional Codex Co-ordinating Committee for Africa
- Actively participating in the Codex Alimentarius Commission.

The NRCS also entered into technical co-operation agreements with various countries, including Namibia, Mozambique, Mauritius and Thailand. These agreements are designed to ensure that foods traded between the countries are safe for human consumption and comply with all specifications and regulations. Through the FAI Business Unit, various joint management meetings were held with these countries during the year under review.

Locally, the unit participated in and contributed to the following legislation and standards setting forums:

- SANS technical committees for various food standards
- Food Legislation Advisory Group meeting, hosted by the Department of Health, where proposed food regulations and the processes leading to the implementation of these regulations in the interest of protecting consumers were discussed
- Aquaculture Advisory Group Committee meeting, hosted by DAFF in Cape Town
- Sanitary and Phytosanitary Technical Barriers to Trade Committee meetings, hosted by the Department of Agriculture
- Inter-governmental Aquaculture Forums
- Interdepartmental Food Safety Co-ordinating Committee (established to co-ordinate food safety issues between food regulatory authorities) meeting.

Highlights

The unit issued 50 directives for products not fit for human consumption with an estimated value of R24.1 million.

All fishery export consignments where health guarantees were issued by the NRCS for the European Union, were accepted without any notification in the rapid alert system for food and feed from South Africa.

South Africa will resume seafood exports to the Russian Federation. Inspections were conducted by the Russian Competent Authority and 12 South African seafood companies were officially approved to supply canned fish, frozen fish and fishery products to the Russian Federation. This is the first time since the late 1990s that South African fish will be exported to the Russian Federation on a commercial basis. The initial anticipated monetary value for this trade is estimated at R70 million and it is envisaged that this value will increase in future.

The NRCS facilitated exports of live seafood products to the Republic of China. Trade improved following an inspection of the regulator by the Chinese Competent Authority in June 2014, which officially approved 108 South African seafood companies for the export of fish and fishery products to China. The estimated value of these exports is R1.3 billion per annum.

The acceptance of the certification process for live oysters by the Hong Kong Competent Authority also creates opportunities for South Africa's Aquaculture industry.

Challenges

The extent and timing of local production and the importation of goods remain unpredictable and make operational planning extremely difficult. Operational activities and available resources need to be adjusted at short notice to accommodate sudden increases in imports or exports or fluctuations in local production. During the period under review, the Eastern Cape experienced a limited supply of squid, while the importation of canned fish increased through the Durban port of entry, impacting on inspections.

Conclusion

The FAI Business Unit achieved its objective of protecting consumers by effectively administrating the relevant VCs, and enhanced the trade of good quality food products nationally and internationally. This has led to improved trade relations with various countries. The unit continued to participate in national and international standards setting processes.

In its effort to drive the basic performance efficiencies, the unit constantly strives to keep abreast of new technology developments and benchmarks itself against other regulators, both nationally and internationally. The unit also improves the technical competence of its inspectors by facilitating ongoing training programmes.

Legal Metrology

The Legal Metrology Business Unit ensures that consumers receive quantity of goods, as declared by an importer, manufacturer or retailer on prepackages

Overview

The Legal Metrology Business Unit ensures that consumers receive the quantity of goods, as declared by an importer, manufacturer or retailer on prepackages. It also ensures that instrument measurements remains accurate, within prescribed limits of error, where measuring instruments are used to conclude a transaction. In short, both industry and consumers are protected. The unit therefore promotes fair trade by:

- Ensuring that measuring instruments used for a prescribed purpose are evaluated for proper design, construction and accuracy, taking into account the South African climate and environment
- Undertaking market surveillance to ensure that importers, manufacturers and retailers of products use accurate instruments for trade and that, where manufacturers or retailers prepare prepackages, there is no short measure
- Taking action against those importers, manufacturers and retailers that supply short measure products or use inaccurate measuring instruments
- Designating private verification laboratories to verify measuring instruments, used in terms of the LMA, on behalf of the regulator
- Evaluating the competence of verification officers who work for private verification laboratories and who perform verification on behalf of the NRCS
- Providing traceability to national standards for verification and inspection standards used to type approve, verify and inspect measuring instruments. Traceability is the unbroken chain of calibrations or comparisons linking international standards and/or national standards to the level of verification standards used
- Providing training to inspectors and, where requested, to regional legal metrology bodies (e.g. SADC member states)

- Evaluating test reports of gaming hardware and software with the view of issuing a letter of certification (LoC) to participants in the gaming and gambling industry, as mandated by the National Gambling Act, Act No. 7 of 2004. This is a pre-market approval mechanism to evaluate whether gaming hardware and/or software are compliant with applicable standards and TRs
- Providing input into legal metrology matters in national, regional and international standards as required by SADC Cooperation in Legal Metrology (SADCMEL), AFRIMETS and International Organisation of Legal Metrology (OIML).

The unit is accredited through SANAS under the following SANS standards:

- SANS/ISO 17020 as an inspection body for market surveillance inspections
- SANS/ISO 17025 as a mass and volume calibration laboratory for calibrating verification standards
- SANS/ISO 17025 as a test laboratory for undertaking type evaluation tests.

Of great significance was the promulgation of the LMA on 1 August 2014. This Act applies to all measurable products and services and any measuring instruments and measurements made in trade, health, safety and the environment. The objectives of the LMA are to:

- Expand the scope of trade metrology to include legal metrology
- Strengthen the enforcement of legal metrology
- Develop the appropriate legal metrology legislative framework
- Protect consumers against short measure and inaccurate measurement
- Establish a level playing field for industry
- Support local competitiveness.

The NRCS has implemented short- and long-term strategies to ensure the effective implementation of the requirements of the LMA. Resources have been dedicated to the development of regulations, TRs as well as a long-term implementation plan.

Overall performance

During the year, the Legal Metrology Business Unit received 157 new applications from instrument manufacturers and suppliers for type evaluation, and issued 73 certificates of approval for instruments that have met all requirements and passed the mandatory tests. The approval certificate allows the applicant to manufacture or import any number of replicas of the instrument approved for use in terms of the LMA and relevant technical requirements, however these replicas must comply fully with the approved specifications.

The unit received 783 new applications from the gaming and gambling industry for the evaluation of gaming hardware and software. The unit issued 698 LoCs, whilst 30 applications were carried forward to the next financial year.

A total of 7 366 in-scope and out of scope market surveillance inspections were conducted. To regulate more effectively and efficiently, market surveillance inspections focused on importers and manufacturers of prepacked goods and measuring instruments, and 82% of the inspections were carried out at source (manufacturers and importers), rather than the retail sector.

During these market surveillance inspections, 25 994 product samples were evaluated and the following non-compliances were uncovered:

Sale of goods – type of contraventions

	Incidents of non-compliance			
	2014/15		2013/14	
Short measure	4 664	18%	3 374	13.7%
Incorrect pack size	695	3%	628	2.5%
Unmarked goods	150	0.6%	516	2.1%
Other	234	1%	154	0.6%
Total	5 743	22%	4 672	18.9%

The upward trend in non-compliances can be attributed to the increased market surveillance inspections relating to prepacked goods. With regard to measuring instruments, 12 105 instruments were inspected and the following were noted:

Instruments – type of contraventions

	Incidents of non-compliance			
	2014/15		2013/14	
Verification status lapsed	1 798	14.9%	2 456	22.9%
Unapproved	158	1.3%	629	5.8%
Inaccuracy	108	0.9%	79	0.7%
Technical/marking non-compliances	67	0.6%	62	0.6%
Other non-compliances	76	0.6%	101	0.9%
Total	2 207	18%	3 327	30.9%

The verification status of measuring instruments and the number of unapproved measuring instruments that found their way into the market continue to be the main contributors to incidents of non-compliance. The downward trend in identified non-compliances can be attributed to the effectiveness of surveillance inspections conducted.

To ensure that non-compliant goods do not find their way to the consumer and that non-compliant instruments are not used in transactions, the unit's market surveillance inspectors issued 5 743 embargoes for prepacked goods and 2 207 rejections for measuring instruments. Inspectors also issued warnings to 1 493 businesses for supplying non-compliant prepacked goods or instruments and instituted legal proceedings against 51 repeat offenders on 430 counts.

The unit evaluated 25 994 product samples with a market value of R1.016 billion during the reporting period, and 5 743 product samples with a market value of R492 million were found to be non-compliant. Had these products not been detected and corrected, the potential loss (out of pocket) to the consumer is estimated at R3.629 billion per annum.

The four SANAS-accredited calibration laboratories, situated in Cape Town, Durban, Port Elizabeth and Pretoria, inspected and calibrated 8 290 mass verification standards, 560 volumetric verification standards and 402 balances. These calibrations ensured that standards used by verification officers and the equipment used by inspectors are accurate and traceable to national standards.

To ensure that verification officers working for designated verification laboratories are competent, they have to pass the required theoretical and practical examinations. A total of 457 theoretical verification officer examination papers were written, of which 236 were successful. In addition, 60 candidate verification officers passed their practical evaluations on verifying measuring instruments.

The Legal Metrology Business Unit supported SANAS through its lead or technical assessors who conducted assessments on verification laboratories. These assessors spent 108 man days assessing verification laboratories. The assessment of verification laboratories remains strategic to the NRCS because it underpins confidence in the designation of the laboratories to operate under the LMA.

Inspectorate capacity

To ensure that the unit has adequate capacity, especially in light of its expanded mandate under the LMA, legal metrology market surveillance inspectors received training on the LMA, as well as theoretical and practical training on various TRs as well as quality system verification procedures.

National, regional and international liaison

During the past year, the Legal Metrology Business Unit continued to work closely with other national, regional and international regulators and standards bodies in the field of legal metrology.

It represented South Africa on 28 OIML technical committees responsible for drafting model regulations (recommendations) to be used in legal metrology, and gave input into several of these recommendations to ensure that South African requirements are considered in the development of new, harmonised international requirements.

The unit hosts the secretariat of OIML Technical Committee 6, which deals with requirements for prepackaged goods. The secretariat provided input into draft international recommendations currently being developed or revised by the committee, and arranged and attended a committee meeting in Seoul, South Korea.

The unit's head, Mr Stuart Carstens, represented South Africa at the OIML's International Committee of Legal Metrology (CIML) meeting in Auckland, New Zealand, where he received an OIML Medal for his contribution to international legal metrology and his tireless advocacy of the plight of developing countries and consideration of their position. The aim of the CIML meeting was to review the OIML's technical progress and administrative operations. Several other technical committee meetings took place in conjunction with the CIML meeting to ensure the development of legal metrology in the region and on the African continent.

The Legal Metrology Business Unit provides the secretariat services for SADCMEL, and was responsible for arranging the 29th SADCMEL meeting in March 2014 in Kinshasa, Democratic Republic of Congo. The unit's head and the regional co-ordinator also attended the SADCMEL Executive, Project Management and Technical Committee meetings, as well as the SADC Technical Barriers to Trade Expert Group meetings.

Involvement in the above meetings was valuable as it furthered the commitment of the NRCS to play a leading role in matters of regional interest, and gave the organisation exposure as a leading regulator in legal metrology and associated fields. During the SADC opening ceremony, Technical Specialist, Mr Brian Beard, was recognised for his contribution to the development of legal metrology in the SADC region.

The Legal Metrology Business Unit chaired four SABS committees dealing with legal metrology standards, and specialists and inspectors from the unit participated in various working groups dealing with new standards and amendments to existing standards covering legal metrology technical requirements. The unit's involvement in these activities ensured that the regulator remained at the cutting edge of technological developments in the field of legal metrology.

Stakeholder engagement

The unit assisted **the dti** in creating awareness and educating local government and stakeholder associations in the retail, alcoholic beverage, cosmetics and aerosol sectors on the requirements of the LMA. Among others, the unit met with the Accredited Verification Laboratory Sector Committee to inform this sector of the LMA's implications, and collaborated with the FAI Business Unit to ensure that imported or locally manufactured fish and fishery products comply with legal metrology requirements.

Funding

The Legal Metrology Business Unit receives its principal funding through the NRCS's government grant, and additional funding is generated through its calibration, verification, type approval and assessment activities. The unit, together with **the dti**, has implemented a project through which it will research and develop a suitable funding model.

Conclusion

Through the Legal Metrology Business Unit, the NRCS remains committed to protecting consumers' right to receive the correct measure of goods as claimed or displayed on the labels of prepackaged goods or services for which they pay. The unit promotes confidence in the measurements made by the South African industry that will ultimately lead to increased market access for local manufacturers.

National Building Regulations

The NBR Business Unit is responsible for ensuring uniform understanding, interpretation and implementation of the Act and other related regulations

Overview

The NBR Business Unit was established in accordance with the NBR&BS Act and is responsible for ensuring uniform understanding, interpretation and implementation of the Act and other related regulations, including:

- National Building Regulations
- NBR Review Board Regulations.

The NBR Business Unit also protects the interests of citizens by:

- Pro-actively engaging with built environment practitioners and relevant industries to create regulatory awareness
- Developing and enhancing a culture of voluntary compliance by built environment practitioners, including local authorities' building control officers (BCOs), by means of uniform understanding of building and related regulations
- Identifying and bridging gaps in enforcement of compliance with the legislation and TRs
- Collaborating with strategic partners and fellow agencies to ensure uniformity in the built environment regulatory sphere.

The business unit's overall performance is measured against its key performance areas relating to promoting uniformity in understanding, interpretation and implementation of the NBR&BS Act and applicable building and related regulations, ensuring that buildings are structurally safe, healthy and suitable for human occupancy. The unit's key performance areas for the year were:

- Administer the NBR Review Board
- Provide technical advice to industry and other regulators on NBRs and related matters
- Perform building defects inspections and/or architectural investigations as an impartial party on request from the Minister of Trade and Industry
- Evaluate qualifications of BCOs in local authorities, where they often do not meet prescribed minimum requirements.

NBR Review Board administration

The NRCS performs the secretariat function of the NBR Review Board, which was established in terms of Section 9 of the NBR&BS Act. The Act allows any person who feels aggrieved by the decision of their local authority to grant approval, to appeal the decision through the NBR Review Board, in respect of:

- Application for approval of building plans and related documentation, specifications, etc.
- Erection of buildings in certain circumstances, subject to prohibition or conditions
- Application of NBR and/or related by-laws.

The NBR Review Board received 11 appeals cases – Three were concluded and the records of decisions issued; hearings were conducted for four cases, and records of decisions are awaited; and four cases were carried over to the next financial year.

Building investigations

The NBR Business Unit conducted several building investigations (outlined in the table below) as directed by the Minister of Trade and Industry in terms of the NBR&BS Act and applicable regulations.

Areas of investigation	Overview
Marble Hall	The Minister directed the NRCS to investigate alleged non-compliance by the Marble Hall Local Authority. The joint investigation by **the dti**, COGTA and the NRCS was concluded and recommendations submitted to the Minister.
Tongaat Mall	In November 2013, the concrete structure of the Tongaat Mall in KwaZulu-Natal collapsed, resulting in the deaths of two workers. The unit completed its building investigation reports in terms of its mandate.
Orlando Power Station	The decommissioned power station was stripped of its structural steel without authorisation, which ultimately resulted in the building collapsing, claiming the lives of three individuals. The investigation was concluded.
Meyersdal private residence	The structure collapsed in 2014, resulting in 21 injuries and six deaths. The investigation report was finalised and NRCS participated in the Department of Labour's Commission of Inquiry.

Highlights

The NBR Business Unit successfully convened the BCO Convention in September 2014 at the Durban International Convention Centre. The theme was aligned with South Africa's 20 years of democracy celebrations and focused on the revision of the NBR&BS Act. The inputs received from the delegates were submitted to **the dti**.

Challenges

Despite the significant efforts of the NRCS to effectively implement the NBR&BS Act, there are challenges that still need to be addressed. Some of these challenges include:

- Stakeholders' lack of understanding of the impact of non-compliance with building regulations, resulting in buildings collapsing
- Stakeholders' lack of full understanding of the NBR mandate and authority in terms of the NBR&BS Act
- Affected regulators' lack of accountability and enforcement of the NBR&BS
- The NBR&BS Act is outdated, and poses a number of regulatory challenges, but is currently being reviewed by **the dti**.

Conclusion

The NBR Review Board concluded three cases during the financial year. All challenges relating to the NBR Review Board were resolved and it was fully functional by the end of the financial year. The review of the NBR&BS Act is anticipated to address most of the challenges faced by the built regulatory environment. This includes solutions to understanding, interpreting and implementing the legislation and ensuring that buildings are structurally safe, healthy and suitable for human occupancy.

Regulatory Research and Development

The RR&D Business Unit supports the NRCS' first strategic goal of developing and maintaining VCs and TRs under the NRCS Act and LMA

Overview

The Regulatory Research and Development (RR&D) Business Unit supports the NRCS' first strategic goal of developing and maintaining VCs and TRs under the NRCS Act and LMA. The RR&D gives effect to this strategic objective through several operational activities, which include risk and impact assessments of products, among other processes.

The unit identifies the need for new VCs and TRs, or amendments to existing VCs and TRs, in accordance with the latest international and national requirements. It also conducts regulatory research to benchmark the NRCS' regulatory practices with international best practice and to inform regulatory decisions that are included in VCs and TRs. In addition, the NRCS, together with other technical infrastructure institutions, supports IPAP by developing VCs that promote industrial development initiatives.

One of the unit's focus areas is to contribute towards the green economy by developing and implementing VCs on the energy efficiency of household electrical and electronic appliances as well as green building materials. Other initiatives include the regulation for plastic carrier bags and the regulation for garbage bags and bin liners, currently being developed, that aims to promote recycling by imposing compulsory post-consumer recycled content in such bags. These projects are expected to bring about a positive impact on the environment and on energy efficiency in the domestic sector.

In the foods sector, the NRCS is administering agro-processing initiatives relating to live rock lobsters. Live rock lobsters are mainly exported to the Far East, and **the dti** has requested the NRCS to assist the DAFF in the regulation of this sector. The process will involve the development of a national standard (SABS: SANS 1680:2014), which will be made compulsory by the development of a set of VCs for live rock lobsters. As part of the administration of the VC, the NRCS may issue health guarantees for these products.

Overall performance

During the period under review, the RR&D Unit ran 42 projects to develop, amend or review VCs and TRs which are at varying project stages. These comprise 27 amendments, 14 new developments and one withdrawal. The unit's overall performance can be summarised as follows:

- Seven VCs were approved and completed, namely:
  - VC 8013: The Amendment of the Compulsory Specification for Hydraulic Fluid
  - VC 8035: The Amendment of the Compulsory Specification for Earth Leakage Devices
  - VC 8036: The Amendment of the Compulsory Specification for Circuit Breakers
  - VC 8054: The Amendment of the Compulsory Specification for Disinfectants and Detergent-Disinfectants
  - VC 8056: The Amendment of the Compulsory Specification for Passenger Tyres
  - VC 8059: The Amendment of the Compulsory Specification for Commercial Tyres
  - VC 9002: The Amendment of the Compulsory Specification for PPE: Safety Footwear
- The proposed new VC for processed meat products was completed and agreed upon with industry, however industry expressed concern relating to the costs associated with implementing the regulation. The NRCS, industry and other government departments are in the process of resolving this matter
- Seven VC's are ready for final gazette by **the dti**:
  - VC 8034: The Final Withdrawal of the Compulsory Specification for Coal Burning Stoves and Heaters (published on 23 May 2014)
  - VC 8055: The Amendment of the Compulsory Specification for Electrical and Electronic Apparatus (published on 31 October 2014)
  - VC 9003: The Development of the Compulsory Specification for Safety Glass and other Safety Glazing Materials (published on 16 May 2014)
  - VC 9006: The Compulsory Specification for Hot Water Storage Tanks for Domestic Use (published on 16 May 2014)
  - VC 9008: The Development of the Compulsory Specification for Energy Efficiency and Labelling of Electrical and Electronic Apparatus (published on 28 November 2014)
  - VC 9012: The Development of the Compulsory Specification for Electric Luminaires (published on 31 October 2014)
  - VC 9091: The Amendment of the Compulsory Specification for Single Capped Fluorescent Lamps (published on 23 May 2014)
- Seven VCs were published for first gazette/ notices for public comments by **the dti**, namely:
  - VC 8003: The Amendment of the Compulsory Specification for Switches for Fixed Installations (published on 6 February 2015)
  - VC 8017: The Amendment of the Compulsory Specification for Frozen Fish, Frozen Marine Molluscs and Frozen Products Derived therefrom (published on 11 July 2014).
  - VC 8023: The Amendment of the Compulsory Specification for Buses (M2/3 Vehicles), (published on 17 October 2014)
  - VC 8025: The Amendment of the Compulsory Specification for Heavy Commercial (N2/3) Vehicles (published on 17 October 2014)
  - VC 8031: The Amendment of the Compulsory Specification for Frozen Shrimps, Langoustines and Crabs (published on 17 October 2014)

- VC 8053: The Amendment of the Compulsory Specification for Replacement Brake Linings, (published on 17 October 2014).
- VC 9088: The Amendment of the Compulsory Specification for Small Arms Shooting Ranges (published on 17 October 2014)

- Four VCs are pending publications by **the dti**, namely:
  - The final gazette of VC 8017: The Amendment of the Compulsory Specification for Frozen Fish
  - The final gazette of VC 8031: The Amendment of the Compulsory Specification for Frozen Shrimps, Langoustines and Crab
  - The first gazette of VC 8036: The Amendment of the Compulsory Specification for Circuit Breakers
  - The first gazette of VC 9002: The Amendment of the Compulsory Specification for PPE: Safety Footwear.

Significant progress was made towards the completion of projects, some of which were not targeted for completion during the period under review. In addition to the unit's performance indicated above, extensive research was conducted for feasibility studies and risk and impact assessments during the year. The reports produced through these processes were approved by the RR&D Project Approvals Committee (PAC).

The PAC's main role is to manage the progress and quality control of projects registered; appraise and approve technical reports produced during the projects; and make recommendations on actions needed to improve outcomes prior to submission to the NRCS management. During 2014/15, the PAC reviewed and approved numerous submissions, including ten requests to develop new VCs, some of which are already in the development process.

Research projects

The RR&D Business Unit made significant progress in developing research capability, and achieved its target of developing two technical/scientific publications or presentations in 2014/15. The unit completed the following research activities during the year:

- The NRCS Research Strategy was approved
- Six technical articles were completed
- Two technical/scientific presentations were made to relevant forums
- Researchers contributed to two technical industrial publications
- Researchers concluded one ad hoc research project
- The unit supervised the Swedish International Development Cooperation Agency (SIDA III) project's research component on the feasibility of using a unique NRCS mark to identify products that have been approved by the organisation.

Despite achieving its targets, the research function can still be strengthened, especially with regard to research on the impact of regulations.

Stakeholder engagement

The RR&D Business Unit's stakeholder engagement activities primarily revolve around ensuring transparency and accountability in the development and maintenance of VCs and TRs and encouraging participation in processes that determine regulations. In order to achieve wider participation, the NRCS establishes broad-based (multi-disciplinary) stakeholder groups representing stakeholders' common interests. These groups comprise experts (technical, academic and industrial), government departments and entities, non-governmental organisations, industry bodies, consumer bodies and organised civil society groups, as may be necessary.

During the reporting period, unit convened 27 stakeholder consultation meetings on proposed regulatory interventions. These meetings were open to any affected or interested party and were widely attended. However, more participation of small, medium and micro enterprises need to be encouraged.

National, regional and international involvement

The RR&D Business Unit participated in a number of regional and international engagements in an effort to enhance regional and international harmonisation of regulatory practices.

It hosted and/or participated in 45 inter-governmental meetings with **the dti**, DoT, Department of Environmental Affairs, Department of Health and DAFF, to foster strategic partnerships and ensure relevance, development and maintenance of VCs. NRCS officials also served on several national co-ordinating structures, such as the Interdepartmental Task Team on Food Control and the Appliance Standards, the Multi-sector Committee on Chemicals Management, and the Labelling Group of the Department of Energy. The unit also participated in 75 meetings of SABS technical committees responsible for developing, adopting and maintaining SANS applicable to commodities regulated by the NRCS.

The RR&D Business Unit participated in and contributed to nine international initiatives by providing technical assistance to discussion/ technical documents and attending meetings. The unit represented South Africa as a technical expert at six international meetings of Working Party 29 and International Whole Vehicle Type Approval, which were aimed at facilitating the harmonisation of standards and regulations in the automotive sector. The unit, as part of a SABS delegation, also participated in ISO's Consumer Policy Committee to contribute to setting policy guidelines for addressing consumer concerns relating to product and service standards.

Training

Individual development programmes are prepared for each RR&D staff member at the beginning of the financial year, and staff members are trained as and when required to improve skills and competency profiles. Training is provided in conjunction with the HR Unit.

During the reporting period, training was provided in a number of technical areas, such as product labelling, factory audits, risk assessment methods for food safety, statistical guidelines for choosing research methods, sampling methods and experimental designs. In addition, one staff member completed a management advancement programme through the National School of Government, whilst another received training on regulatory impact assessments in Rome, Italy.

When required, the unit also provides training or make presentations to relevant forums that deal with TRs. During the reporting period, the unit trained delegations from Botswana and Ghana.

Challenges

The RR&D Business Unit has limited capacity to conduct comprehensive impact assessments. There is a big need for expertise in this area, as economic considerations such as the cost of regulation and its impact on industry, such as job losses and administrative burdens, are increasingly becoming a primary concern in many government imperatives and a source of contention in the process of developing TRs. Such expertise will also be instrumental to improving the unit's ability to measure and communicate the impact of work performed for both internal and external stakeholders.

Deferments in project timelines can mainly be attributed to delays by the SABS technical committees to complete SANS, and in some instances unexpected complexities and policy issues raised during stakeholder engagements.

Institutions involved in policymaking are often slow or do not respond when matters need to be cleared to avoid infringement or duplication of regulatory efforts, which delays the process of making regulatory decisions. The unit therefore strives to forge solid partnerships with government departments/institutions involved in areas identified for possible regulation.

Conclusion

Going forward, the unit will focus on the enhancement of research capability and economic impact assessment to inform regulatory policies, including acquiring additional staff with the relevant competencies in these areas. The unit's strategic target for the next financial year is to complete the development and maintenance of 12 VCs and TRs and to publish at least three technical papers.

Communications and Marketing

The role of the Communications and Marketing Business Unit is to facilitate and co-ordinate an array of integrated communication solutions in line with the organisation's strategic goals and objectives

Overview

The role of the Communications and Marketing Business Unit is to facilitate and co-ordinate an array of integrated communication solutions in line with the organisation's strategic goals and objectives. The business unit's main activities are internal and external communication, public relations, media liaison, marketing, branding and advertising thereby promoting and enhancing the image of the organisation.

The Communications and Marketing Business Unit is responsible for the NRCS' Strategic Goal 3 – to inform and educate our stakeholders about the NRCS, and its activities, as set out in the Strategic Plan and Annual Performance Plan, are all aimed at achieving this goal.

Overall performance

Consumer education

The unit interacted with both internal and external stakeholders, and conducted 13 consumer education workshops aimed at creating dialogues with stakeholders across the country to deepen their understanding about the role and mandate of the NRCS. These workshops were conducted in Braamfisher, Soweto, Mafikeng, Moletji in Limpopo, Pretoria and Sharpeville, among others, and was well-received by members of the public.

Media liaison

Various media platforms were used to profile the NRCS during the period under review. Advertising slots were booked and interviews were conducted to facilitate more interaction with South Africans on the business of NRCS. During the last quarter of the year, the business unit, in partnership with the Department of Communications, developed adverts that were aired on all African language radio stations. It also jointly hosted a media conference with the National Press Club on the implementation of the revised Plastic Carrier Bag and Flat Bag VC.

Media releases were issued on the destruction of non-compliant products and key organisational events, such as the BCO Convention and the Regulatory Conference. The media releases generated publicity in both electronic and print media.

Publications

The business unit compiled 12 internal newsletters aimed at keeping staff informed about developments in the organisation. It also generated one publication aimed at industry stakeholders to enhance communication with those involved in the manufacturing, importing and selling of commodities that are regulated by the NRCS. The focus was mostly on new and amended VCs.

Marketing

Social media, such as the NRCS website and Facebook page, were regularly updated with current market and organisational information. The NRCS boosted its marketing initiatives by exhibiting at various industry and public events, such as the Rand Show.

Event management

The Communications and Marketing Business Unit, in close collaboration with other business units within the NRCS, hosted the first ever Regulatory Conference, bringing together stakeholders from around the world in an open dialogue to discuss regulatory issues and challenges. The conference took place on 17–18 September at The Forum, The Campus Office Park, Bryanston. The unit, together with the NBR Business Unit, also hosted the successful BCO Convention in Durban.

Conclusion

During 2014/15, the Communications and Marketing Business Unit made great strides in marketing and promoting the NRCS as a brand, and to create an understanding of its role and mandate. The business unit lobbied for free interview slots on various radio programmes, offered commentary on topical issues in the media and engaged with various stakeholders, such as the South African National Consumer Union, Consumer Protection Forum, NCC, National Credit Regulator, Financial Services Board and the Independent Communications Authority of South Africa, among others.

PART C:

Governance

Introduction

The NRCS was established on 1 September 2008, with the promulgation of the NRCS Act. As a public entity, the NRCS is guided by the protocol on good corporate governance, as defined in the PFMA and other prescripts. In managing its activities, the organisation strives to achieve transparency, accountability, efficiency and the effective use of resources.

Executive Authority

The NRCS is an entity of **the dti**, and complied with its obligations in terms of its Shareholder Compact by submitting quarterly reports to **the dti** on or before the end of each respective quarter. These reports were approved by the Executive Authority.

Accounting Authority

The governance structure of the NRCS was amended with the promulgation of the LMA on 1 August 2014. The LMA led to the disbandment of the NRCS Board and its subcommittees, and making the CEO the organisation's Accounting Authority with immediate effect. The Board therefore only met twice during the period under review.

Composition of the Board

Name	No. of meetings held	No. of meetings attended
Mr Jeff Molobela	2	2
Mr Nico Vermeulen	2	2
Ms Elizabeth Moolman	2	2
Ms Dora Ndaba	2	2
Prof. Sadhasivan Perumal	2	2
Mr Paul Serote	2	1
Ms Funzani Melato	2	2
Mr Sipho Zikode	2	0

Since the NRCS Board was disbanded on 31 July 2014, the table above only reflects relevant information on meeting attendance.

Board committees

<table>
<tr><th>Committee</th><th>No. of meetings held</th><th>No. of members</th><th colspan="2">Names of members</th></tr>
<tr><td rowspan="4">Audit and Risk Committee</td><td rowspan="4">6</td><td rowspan="4">8</td><td>Ms Dora Ndaba</td><td>Mr Adam Cowell</td></tr>
<tr><td>Prof. Sadhasivan Perumal</td><td>Mr Sikkie Kajee</td></tr>
<tr><td>Mr Paul Serote</td><td>Mr Tshepo Mofokeng</td></tr>
<tr><td>Mr Nico Vermeulen</td><td>Mr Kumaran Naidoo</td></tr>
<tr><td rowspan="2">Technical Committee</td><td rowspan="2">1</td><td rowspan="2">4</td><td>Ms Funzani Melato</td><td>Prof. Sadhasivan Perumal</td></tr>
<tr><td>Ms Elizabeth Moolman</td><td>Mr Nico Vermeulen</td></tr>
<tr><td rowspan="3">Remuneration Committee</td><td rowspan="3">3</td><td rowspan="3">5</td><td>Ms Funzani Melato</td><td>Ms Dora Ndaba</td></tr>
<tr><td>Mr Jeff Molobela</td><td>Prof. Sadhasivan Perumal</td></tr>
<tr><td>Ms Elizabeth Moolman</td><td></td></tr>
</table>

Audit and Risk Committee

The role of the Audit and Risk Committee is discussed on page 60.

Technical Committee

The purpose of the Technical Committee was to assist the NRCS Board in fulfilling its corporate governance responsibilities relating to technical and related matters. In brief, the committee was responsible for:

- Considering and advising the Board on proposed VCs or proposed amendments to VCs in terms of Section 13 of the NRCS Act
- Recommending actions to be taken against non-compliant products in terms of Section 15(3) of the NRCS Act
- Considering and advising the Board on the regulations published in Government Notice R924 in terms of Section 36 of the NRCS Act
- Considering and advising the Board on technical and related matters as outlined in the Trade Metrology Act
- Addressing any issues as requested by the Executive Authority and that is in the public interest.

The committee met its obligations and played a major role in the administration and destruction of non-compliant products during the first half of the year. After the enactment of the LMA, the Technical Committee was replaced by the Internal Management Committee, which now fulfils the above-mentioned duties.

Remuneration Committee

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

Information and Communication Technology

Overview

The ICT Business Unit is responsible for ICT infrastructure, systems and support within the NRCS. The primary considerations in managing ICT within the organisation are sustainability, performance assurance and the ability to execute the identified NRCS priorities. Several new ICT interventions were implemented during the year, including the CRM system.

CRM system

The ICT Business Unit implemented a CRM system in September 2014, which transformed the NRCS's processes from a manual system to a digital one. The system is still faced with some teething problems, which hampers full utilisation. However, these challenges will be addressed in the next financial year.

The system is envisaged to enhance service delivery and mobilise inspectors by allowing them remote access to information. It will also allow for more and better collaboration with partner organisations and government in the realisation of an integrated system for sharing information, especially the SARS risk engine. The use of information technology to link data sources for business intelligence through collaboration with SARS will improve inspections at points of entry.

Risk management

In managing risks, the NRCS instituted a system of internal control, focusing on financial and risk management and including relevant policies and procedures. Through this system, management identifies threats and activities that, should they arise, may negatively impact on the organisation's ability to achieve its objectives. It also creates an environment where management can prioritise risks and develop a Risk Response Strategy in accordance with the NRCS materiality framework. The Accounting Authority is responsible for ensuring that the system of internal control is effective, efficient and transparent. During the reporting period, the NRCS conducted a risk assessment exercise at a corporate level to identify key risks.

The Audit and Risk Committee plays a significant role in ensuring compliance with good corporate governance principles, aiding the Accounting Authority in the management of the NRCS risks. The committee also played a significant role in identifying strategic areas of concern.

Internal control

The system of internal control is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. The Audit and Risk Committee noted significant weaknesses in the internal control environment, as well as instances of non-compliance with laid down procedures. Together with the Accounting Authority, appropriate action is being taken to deal with transgressions and to prevent the recurrence of control failures.

Internal audit

Key activities and objectives

The NRCS considers compliance with applicable laws, regulations, codes and its own ethical standards and internal policies to be an integral part of its business culture. Its Internal Audit Unit therefore provides independent, objective assurance and consulting services to add value to and improve the organisation's operations. It takes a systematic, disciplined approach to evaluate and improve the adequacy of risk management, control and governance processes.

The unit is primarily responsible for the execution of operational and compliance audits, performance audits, financial audits, IT audits, forensic audits as well as ad hoc assignments. At present, the fulltime Internal Audit employees are assisted by an external service provider. A new internal audit service provider was appointed during the review period.

Audit work done during the year

During the year under review, the Internal Audit Unit planned 41 audits, 39 of which were successfully concluded. It also completed the following tasks, in consultation with the Audit and Risk Committee:

- A three-year rolling Strategic Internal Audit Plan based on its assessment of key risk areas to the NRCS, having regard for current operations and operations proposed in the Strategic Plan and Risk Management Strategy
- The annual Internal Audit Plan
- Developed the scope, cost and timelines of each audit set out in the annual Internal Audit Plan

- Audit reports, directed to the Audit and Risk Committee and detailing the unit's performance against the plan, to allow for effective monitoring and intervention when necessary.

The Internal Audit Unit co-ordinated with the AGSA to ensure proper audit coverage and to minimise the duplication of efforts. It assisted the Accounting Authority in maintaining the system of internal control, by evaluating controls and developing recommendations for enhancement or improvement.

It assisted the Accounting Authority in achieving the NRCS objectives by evaluating and developing recommendations for the enhancement or improvement of internal processes, through which:

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

Key activities and objectives of the Audit and Risk Committee

The role of the Audit and Risk Committee is to support the Accounting Authority in fulfilling oversight responsibilities with regard to the following:

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

Up to the end of May 2014, the committee comprised four Board members, three independent members and a representative of **the dti**, after which it only comprised independent members and **the dti** representative. The committee meets at least once every quarter.

The table below discloses relevant information on the audit committee members.

Name	Internal/ external	If internal, position	Date resigned	No. of meetings attended
Ms Dora Ndaba	External	N/A	30/06/2014	2/6
Prof. Sadhasivan Perumal	External	N/A	30/06/2014	2/6
Mr Paul Serote	External	N/A	30/06/2014	0/6
Mr Nico Vermeulen	External	N/A	30/06/2014	2/6
Mr Adam Cowell	External	N/A	N/A	3/6
Mr Sikkie Kajee (Chair)	External	N/A	N/A	6/6
Mr Tshepo Mofokeng	External	N/A	30/08/2014	2/6
Mr Kumaran Naidoo (**the dti** representative)	External	N/A	N/A	6/6

The CEO, Chief Financial Officer (CFO), the Chief Audit Executive, and AGSA representatives are standing invitees to each meeting of the Audit and Risk Committee. The committee also has direct access to these attendees in the fulfilment of its duties. Other executives and managers are regularly invited to attend meetings to discuss matters relating to audit findings or business matters in their areas of responsibility.

Fraud and corruption

The NRCS is committed to 'Zero tolerance' towards fraud and corruption. A Fraud Prevention Policy, Fraud Prevention Plan and a Whistle-Blowing Policy are in place as part of the NRCS' efforts to manage and reduce fraud. These policies are aimed at promoting a culture of whistle-blowing. In addition, a Fraud Hotline is in place, which is independently managed by an external auditing firm and which guarantees the anonymity of whistle-blowers.

During the financial year, all reasonable suspicions of fraud and corruption were directed to Internal Audit for investigation. Some customer complaints were received on the Fraud Hotline, and were directed to the Quality Management Unit for resolution.

Minimising conflict of interest

A Conflict of Interest Policy is in place, which guides employees with regards to potential conflict of interest and acceptance of gifts from suppliers or regulated companies. All NRCS employees are required to declare their financial interests on an annual basis, and for each project that requires a decision of a financial nature. No employee may accept a gift that is worth more than R350, or gifts that are cumulatively worth more than R350, from a single supplier or regulated company. Any gift above this threshold must be declared and registered in the gifts register. To minimise conflict of interest, no NRCS employee is allowed to undertake remunerative work outside of the NRCS without approval.

Code of conduct

The NRCS has a Code of Ethics Policy which guides and commits management and employees to high ethical standards and conduct. The policy is available to all NRCS employees for perusal, and guides employees on how to manage and behave when interacting with stakeholders.

Health, safety and environment

The NRCS operates in compliance with Section 17(5) of the Occupational Health and Safety Act, Act No. 85 of 1993, and a functioning structure is in place to deal with health and safety matters. During the reporting period, all offices of the NRCS had formally appointed health, safety and environment representatives and health and safety committees in place.

Audit and Risk Committee Report

Audit and Risk Committee responsibility

During the period under review, the Audit and Risk Committee has complied with its responsibilities arising from Section 2.4 of the National Treasury Internal Audit Framework of 2009. The committee operates in terms of approved Terms of Reference in the form of the Audit and Risk Committee Charter, and has conducted its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. The Audit and Risk Committee Charter was reviewed and re-affirmed during the committee's October/November meeting.

Effectiveness of internal control

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

From the various reports submitted by Internal Audit, the committee noted the persistent significant weaknesses in the internal control environment, relating to HR management, supply chain management, assets management, performance information management, revenue management, risk management and IT controls. The committee also noted that while management have committed to timelines in their action plans, there were still outstanding issues that had to be resolved.

Together with the CEO, appropriate action is being taken to deal with transgressions and to prevent the recurrence of control failures. Management established a 'war room' and implemented plans to address material issues. Regular progress reports will be submitted to the Audit and Risk Committee.

Internal audit

An Internal Audit Unit was established and is supplemented by resources from a specialist firm until such time as it can internally perform all of the work required in terms of the approved Internal Audit Plan.

Auditor's report

The AGSA issued a qualified audit opinion in 2014/15 based on the completeness and timing of revenue, mainly levies receivable. In previous years, the NRCS also received a qualification regarding payroll and completeness of revenue, however these where resolved during the year under review.

The Audit and Risk Committee has reviewed these audit findings, and discussed actions to remedy the qualifications with management.

Management has taken many actions to address the revenue qualification, including the gazetting of quarterly levy returns, obtaining import information from SARS and implementing a CRM system. However, the committee still expects the revenue qualification to recur, or at least an emphasis of matter, because of the quantum of work which still needs to be done. A long-term plan is being developed to address the revenue challenge.

Review of budget and Annual Performance Plan

The committee noted the reduction in the NRCS baseline grant by R24 million for 2015/16 and R36 million for 2016/17. In addition, the NRCS expenses have increased significantly as a result of the labour and management settlements over the past two years, resulting in forecast budget deficits of R61 million in 2015/16 and R76 million in 2016/17. These deficits are expected to be financed by releasing funding from NRCS reserves. The committee raised its concerns regarding the sustainability of the organisation without a significant increase in revenue from levies.

Evaluation of Quarterly Reports

The Audit and Risk Committee is generally satisfied with the content and quality of the quarterly reports for both finance and performance information, as prepared and issued by management in terms of the PFMA. The Audit and Risk Committee has:

- Reviewed and discussed the quarterly financial reports with management
- Reviewed the appropriateness of accounting policies and practices in the quarterly reports.

Mr Sikkee Kajee
Audit and Risk Committee Chairperson
31 July 2015

PART D:

HR management

Introduction

The HR Department's main role is to ensure that the NRCS is provided with a competent, effective and adequate workforce that will enable it to carry out its mandate seamlessly and effectively.

HR priorities for the year

The department's objectives for the year were as follows:

- Ensure that the workforce has the necessary skills and competencies
- Ensure that the organisation has the necessary capacity to deliver on its mandate
- Ensure promotion of sound employee relations
- Ensure optimal use of resources
- Ensure integrated occupational health, safety and wellness for all employees.

Employee wellness programme

The Employee Wellness Programme is managed by an independent company, and internally overseen by the HR Department. During the year under review, a number of awareness sessions were conducted with all employees. The employee wellness strategy and services were reviewed, and management is confident that the existing programme allows all employees to engage with the appointed service provider.

HR oversight statistics

Personnel cost by programme

Programme	Personnel expenditure (R'000)	No. of employees	Average personnel cost per employee (R'000)
Salaries	210 608 040	302	697 377.61
Training	3 516 359	223	15 768.43
Recruitment and selection	66 446	15	4 429.73

Personnel cost by salary band

Level	Expenditure	% to total	No. of employees	Average
Top management	3 571 643	1.70%	3	1 190 547.67
Senior management	49 319 560	23.42%	55	896 719.27
Professional qualified	127 921 980	60.74%	164	780 012.07
Skilled	27 470 425	13.04%	71	386 907.39
Semi-skilled	2 324 432	1.10%	9	258 270.22
Total	**210 608 040**	**100.00%**	**302**	**697 377.61**

Performance rewards

No performance rewards were allocated to staff during the 2014/15 financial year.

Training costs

Business unit	Personnel expenditure	Training expenditure	Training expenditure as a % of personnel cost	No. of employees trained	Average training cost per employee
Automotive	33 265 681	169 457	0.51%	43	3 940.86
NBR	2 902 361	26 908	0.93%	3	8 969.33
Business Support Services	1 476 754	-	0.00%	0	-
CMM	11 524 038	51 922	0.45%	6	8 653.67
Communications	2 773 328	29 318	1.06%	4	7 329.50
Electro-technical	28 949 072	72 543	0.25%	20	3 627.15
Office of the COO	807 259	116 525	14.43%	1	116 525.00
Environmental Protection	8 681 410	30 508	0.35%	10	3 050.80
Finance	15 889 389	178 170	1.12%	27	6 598.89
Foods Levies RSA	35 765 532	148 165	0.41%	43	3 445.70
HR	5 351 744	31 780	0.59%	4	7 945.00
Internal Audit	2 522 322	11 856	0.47%	3	3 952.00
IT Services	4 609 055	252 885	5.49%	16	15 805.31
Legal Metrology	43 471 104	96 123	0.22%	31	3 100.74
Legal Services	2 844 981	40 621	1.43%	4	10 155.25
Records and Facility Management	1 388 520	-	0.00%	0	-
Office of the CEO	3 602 190	16 692	0.46%	3	5 564.00
Regulatory Research and Development	4 783 300	58 886	1.23%	5	11 777.20
Total	**210 608 040**	**3 516 359**	**1.67%**	**223**	**15 768.43**

Employment and vacancies

Programme	2013/14 no. of employees	2014/15 approved posts	2014/15 no. of employees	2014/15 vacancies	% of vacancies
Top management	2	4	3	1	33.33
Senior management	57	64	55	9	16.36
Professional qualified	154	172	164	8	4.88
Skilled	70	75	71	4	5.63
Semi-skilled	10	9	9	0	0
Unskilled	0	0	0	0	0
Total	**293**	**324**	**302**	**22**	**7.28**

Employment changes

Salary band	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top management	2	1	0	3
Senior management	57	0	4	53
Professional qualified	154	3	1	156
Skilled	70	12	2	80
Semi-skilled	10	0	0	10
Unskilled	0	0	0	0
Total	**293**	**16**	**7**	**302**

Employment changes

Reason	Number	% of total no. of staff leaving
Death	0	0
Resignation	4	57.1
Dismissal	0	0
Retirement	1	14.3
Ill health	0	0
Expiry of contract	2	28.6
Other	0	0
Total	**7**	**100**

Labour relations: misconduct and disciplinary action

No labour relations matters were raised during the year.

Equity target and employment equity senior management positions

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	1	1	0	0	1	0	0	0
Senior management	19	19	3	4	0	1	19	19
Professional qualified	68	68	20	20	8	8	21	21
Skilled	10	10	3	3	0	1	0	1
Semi-skilled	6	6	2	2	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
Total	**104**	**104**	**28**	**29**	**9**	**10**	**40**	**41**

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	0	2	0	0	1	0	0	0
Senior management	9	13	1	4	1	1	3	3
Professional qualified	37	41	5	6	2	3	3	4
Skilled	39	41	6	6	2	3	11	11
Semi-skilled	1	1	0	0	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
Total	**86**	**98**	**12**	**16**	**6**	**7**	**17**	**18**

Levels	Disabled Staff			
	Male		Female	
	Current	Target	Current	Target
Top management	0	1	0	1
Senior management	0	1	0	1
Professional qualified	0	1	0	2
Skilled	0	1	1	3
Semi-skilled	0	1	0	1
Unskilled	0	0	0	0
Total	**0**	**5**	**1**	**8**

The organisation's employment equity target is 50:50 (gender), based on demographics and the Department of Public Service and Administration's Guide or Employment Equity Compliance in Public Service.

PART E:

Financial information

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 71 to 120, which comprise the Statement of Financial Position as at 31 March 2015, the Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flows and Statement of Comparison of Budget Information with actual information for the year then ended, as well as 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 Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act, Act No.1 of 1999 (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these Financial Statements based on my audit. I conducted my audit in accordance with 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 judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Qualified opinion

6. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the NRCS as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with Standards of GRAP and the requirements of the PFMA.

Basis for qualified opinion

Non-exchange revenue from levies for compulsory specifications

7. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all non-exchange levies for compulsory specifications for the current and prior year, due to the status of the control environment. I was unable to confirm the non-exchange revenue from levies for compulsory specifications by alternative means. Consequently, I was unable to determine whether any adjustment to non-exchange revenue from levies for compulsory specifications at R165 502 808 (2013/14: 139 236 692) in the Financial Statements was necessary.

Emphasis of matter

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

Material impairments

9. As disclosed in note 3.2 and 4.2 to the Financial Statements, material impairment to the amount of R4 855 706 were incurred as a result of irrecoverable trade debtors.

Restatement of corresponding figures

10. As disclosed in note 29 to the Financial Statements, the corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 2015 in the Financial Statements of the National Regulator for Compulsory Specifications, and for the year ended 31 March 2014.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act, Act No. 25 of 2004 (PAA), and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the NRCS for the year ended 31 March 2015:
    - Strategic goal one: To develop, maintain and administer compulsory specifications and technical regulations on page 18
    - Strategic goal two: To maximise compliance with all specifications and technical regulations on pages 19 to 23
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the *National Treasury's Framework for Managing Programme Performance Information* (FMPPI).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. I did not identify any material findings on the usefulness and reliability of reported performance information for Strategic goal one: To develop, maintain and administer compulsory specifications and technical regulations.
17. The material findings in respect of the selected Strategic goal two: To maximise compliance with all specifications and technical regulations are as follows:

Usefulness of reported performance information

Measurability of indicators and targets

18. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for 24% of the targets.

Reliability of reported performance information

19. The FMPPI requires auditees to 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. Overall, 35% of the significantly important targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for significantly important targets.

Additional matters

20. I draw attention to the following matters

Achievement of planned targets

21. Refer to the annual performance report on pages 18 to 25 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs 18 and 19 of this report.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for strategic goal one and two. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information for strategic goal two.

Compliance with legislation

23. I performed procedures to obtain evidence that the NRCS had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual Financial Statements, performance and annual reports

24. The Financial Statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the PFMA. Material misstatements of exchange revenue, property, plant and equipment, accruals, employee cost, impairment of trade receivables, interest received and disclosure notes identified by the auditors in the submitted Financial Statements were subsequently corrected but the uncorrected material misstatements resulted in the Financial Statements receiving a qualified audit opinion.

Expenditure management

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

Revenue management

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

Strategic planning

27. Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management was not maintained as required by section 51(1)(a)(i) of the PFMA.

Internal control

28. I considered internal control relevant to my audit of the Financial Statements, the report on predetermined objectives and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant internal control deficiencies that resulted in the findings on the report on predetermined objectives and the findings on non-compliance with legislation included in this report.

Leadership

29. Leadership's oversight and monitoring responsibility in terms of financial and performance reporting and non-compliance with laws and regulations were not adequate.

Financial and performance management

30. Management did not implement effective controls to ensure accurate and complete financial statements and performance reporting and compliance with laws and regulations.

Auditor General

Pretoria
31 July 2015

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Financial Position

as at 31 March 2015

	Notes	2015 R	2014 Restated R
ASSETS			
Current assets		**230 312 510**	**165 153 220**
Cash and cash equivalents	2	206 669 158	150 942 567
Trade and other receivables from exchange transactions	3	9 281 917	4 521 883
Trade and other receivables from non-exchange transactions	4	14 361 435	9 688 770
Non-current assets		**18 118 658**	**19 636 297**
Deposits	5	328 266	328 266
Intangible assets	6	3 685 962	4 039 934
Property, plant and equipment	7	7 767 044	8 852 987
Investment property	8	6 337 386	6 415 110
Total assets		**248 431 168**	**184 789 517**
LIABILITIES			
Current liabilities		**43 956 045**	**34 627 693**
Trade and other payables from exchange transactions	9 & 29	20 238 597	22 249 259
Interest bearing borrowings	10	-	42 305
Employee benefit obligations	12 & 29	1 557 795	858 959
Provisions	11 & 29	22 159 653	11 477 170
Non-current liabilities		**22 228 831**	**20 327 654**
Employee benefit obligations	12 & 29	22 228 831	20 327 654
Total liabilities		**66 184 876**	**54 955 347**
NET ASSETS		**182 246 292**	**129 834 170**
Represented by:			
Accumulated surpluses		**182 246 292**	**129 834 170**
Amount approved by National Treasury for retention		**128 592 703**	**86 016 161**
Amount still subject to National Treasury approval to retain		**53 653 589**	**43 818 009**

Statement of Financial Performance

for the year ended 31 March 2015

	Notes	2015 R	2014 Restated R
Revenue		**319 119 419**	**277 323 565**
Non-exchange revenue		**276 855 560**	**243 811 820**
Levies for compulsory specifications		165 502 808	139 236 692
Transport annual registration fee		1 618 752	1 575 128
Government grants and core funding	24.4	109 734 000	103 000 000
Exchange revenue			
Revenue from services rendered	13	**42 263 859**	**33 511 745**
Sundry income	14	**783 371**	**6 331 928**
		319 902 790	**283 655 493**
Expenses		**278 511 519**	**245 947 183**
Advertising and marketing expenses		2 310 276	2 496 093
Amortisation of intangible assets	6	520 697	559 547
Contract services	15	6 983 776	11 791 491
Depreciation	7 & 8	2 172 071	2 218 148
Employment cost	16 & 29	217 186 399	178 278 802
Impairment	7 & 8	-	575 108
Office rentals and other operating lease expenses	17	12 260 913	13 874 568
Tests and sampling		4 356 623	5 829 178
Travel expenditure		10 683 074	13 865 693
Other expenditure	18	22 037 690	16 458 555
Operating surplus for the year		**41 391 271**	**37 708 310**
Interest received	19	11 022 920	7 186 759
Finance cost	20	(2 069)	(12 216)
Surplus for the year		**52 412 122**	**44 882 853**

Statement of Changes in Net Assets

for the year ended 31 March 2015

	Notes	Accumulated surpluses R
Opening balance at 1 April 2013		87 085 469
Correction of prior period error	29	(2 134 152)
Restated opening balance at 1 April 2013		84 951 317
Surplus for the year		44 882 853
Accumulated surplus at 31 March 2014		129 834 170
Surplus for the year		52 412 122
Accumulated surplus at 31 March 2015		**182 246 292**

Cash Flow Statement

for the year ended 31 March 2015

	Notes	2015 R	2014 Restated R
Cash flows from operating activities		**57 042 284**	**34 065 229**
Cash received from customers and government		**306 129 159**	**273 492 920**
Cash received from services rendered		35 655 980	31 996 138
Cash received from non-exchange transactions		159 934 294	137 760 127
Cash received from government		109 734 000	103 000 000
Other cash received		804 885	736 655
Cash paid to suppliers and employees		**(260 107 726)**	**(246 602 234)**
Cash paid to suppliers		(56 203 823)	(64 436 170)
Cash paid to employees		(203 903 903)	(182 166 064)
Cash generated from operations	21	**46 021 433**	**26 890 686**
Interest received		11 022 920	7 186 759
Finance cost		(2 069)	(12 216)
Cash flows from investing activities		**(1 273 388)**	**(2 461 416)**
Purchase of property, plant and equipment		(1 106 663)	(1 983 877)
Purchase of intangible assets		(166 725)	(474 115)
Additional deposits paid		-	(3 424)
Cash flows from financing activities		**(42 305)**	**(74 134)**
Repayment of interest bearing borrowings		(42 305)	(74 134)
Net increase in cash and cash equivalents		**55 726 591**	**31 529 679**
Cash and cash equivalents at beginning of the period		150 942 567	119 412 888
Cash and cash equivalents at the end of the period		**206 669 158**	**150 942 567**

Statement of Comparison of Budget and Actual Amounts

for the year ended 31 March 2015

	Notes	Approved Budget R	Actual Amount R	Difference to Budget R
STATEMENT OF FINANCIAL PERFORMANCE				
Revenue		**200 438 713**	**210 168 790**	**9 730 077**
Non-exchange revenue				
Levies for compulsory specifications	A	154 014 766	165 502 808	11 488 042
Transport annual registration fee	B	1 774 080	1 618 752	(155 328)
Exchange revenue				
Revenue from services rendered	C	37 002 603	42 263 859	5 261 256
Other income	D	7 647 264	783 371	(6 863 893)
Expenditure		**313 414 029**	**278 511 519**	**34 902 510**
Advertising and marketing expenditure	E	4 934 567	2 310 276	2 624 291
Amortisation of intangible assets	F	1 600 000	520 697	1 079 303
Contract services	G	13 530 172	6 983 776	6 546 396
Depreciation	F	2 425 000	2 172 071	252 929
Employment cost	H	221 167 312	217 186 399	3 980 913
Office rentals and other operating lease expenses	I	13 263 548	12 260 913	1 002 635
Tests and sampling	J	11 110 000	4 356 623	6 753 377
Travel expenditure	K	16 591 593	10 683 074	5 908 519
Other expenditure	L	28 791 837	22 037 690	6 754 147
Operating loss for the year		(112 975 316)	(68 342 729)	44 632 587
Government grants and core funding		109 734 000	109 734 000	-
Operating surplus for the year		(3 241 316)	41 391 271	44 632 587
Interest received	M	3 600 000	11 022 920	7 422 920
Finance cost		(15 000)	(2 069)	12 931
Surplus for the year		**343 684**	**52 412 122**	**52 068 438**

The budget was prepared for the 12 months ended 31 March 2015 on the accrual basis. No adjustment budget was submitted to National Treasury.

Material variances disclosed

A	**Levies for compulsory specifications**	Levies exceeded the budgeted amount as a result of the implementation of projects to ensure that levy returns are submitted and paid and market variances that had not been anticipated when the budget was submitted.
B	**Transport annual registration fee**	The annual registration fees are lower than budget due to less market activity than expected.
C	**Revenue from services rendered**	The over-performance to budget is due to the changes in internal processes where a Letter of Authority (LoA) is payable at application instead of after the issue of a successful LoA.
D	**Other income**	The NRCS budgeted for income from the rental arrangement with SABS in which the NRCS only paid 50% of its rental and recognised the other 50% of market-related rental to other income. This arrangement was cancelled for the period under review (refer to note 24.1).
E	**Advertising and marketing expenditure**	Underspending on advertising and marketing was due to the implementation of the National Treasury cost containment measures, where more cost effective mechanisms were utilised.
F	**Depreciation and amortisation**	Depreciation and amortisation is lower due to an underspend on budgeted capital expenditure for the period under review.
G	**Contract services**	Underspending with regards to contract services is mainly due to the tender processes for co-sourced internal audit, levy audit and IT support functions taking longer than anticipated.
H	**Employee benefit expenditure**	Underspending to budget is due to vacancies that existed in the organisational structure.
I	**Office rentals and other operating leases**	The actual rental amounts are lower than budget due to the effect of straightlining of leases that is not fully budgeted for.
J	**Tests and sampling**	Underspending with regards to testing is mainly due to lower than expected samples submitted for testing.
K	**Travel expenditure**	Underspending on travel was mainly due to implementation of the risk based approach and implementation of the National Treasury cost containment measures, where more cost-effective mechanisms were utilised.
L	**Other expenditure**	Underspending in this area was mainly due to implementation of the National Treasury's cost containment measures, where more cost-effective mechanisms were utilised. Areas of under expenditure against the budget include underspending on legal fees and software costs which did not meet budget expectations.
M	**Interest received**	Higher than anticipated interest revenue was due to the increased investment.

Reconciliation between budget and statement of financial performance

	2015 R
Net surplus per the statement of financial performance	52 412 122
Adjusted for:	
Deficit on the scrapping of assets	92 814
Loss on property, plant and equipment due to theft	5 445
Increases in provisions	17 164 817
Irrecoverable debt written off	480 125
Revenue over recovered	(17 152 997)
Under-expenditure	(52 658 642)
Net surplus per approved budget	**343 684**

Notes to the Annual Financial Statements
for the year ended 31 March 2015

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 PFMA. 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 Standards of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board. Assets, liabilities, revenues and expenses have not been offset except where offsetting is required or permitted by a Standard of GRAP. These accounting policies are consistent with the previous year, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy. The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

Changes in accounting policy, changes in accounting estimates and prior period errors
Changes in accounting policy resulting from the initial application of a Standard are accounted for in accordance with the specific transitional provisions, if any, in that Standard; or the change is applied retrospectively unless impracticable.

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

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

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

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

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

Presentation currency
The financial statements are prepared in South African Rand, which is the functional currency of its primary place of residence.

Rounding
The financial statements are rounded to the nearest Rand.

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

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

Significant judgments and key sources of estimation uncertainty
The preparation of Annual Financial Statements in conformity with the Standards GRAP require of management to make judgments, estimates and assumptions that affect the application of policies and

reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Asset impairments

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

If the entity determines that impairment indicators exist, the recoverable amount is determined. The recoverable amount is the higher of value in use or fair value less cost to sell. The determination is either based on an external valuation or internally determined by discounting the expected future economic benefits from the use of the asset at an appropriate discount rate.

Depreciation and amortisation

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

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

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

The entity uses the following indicators to determine useful lives:

- Expected usage of assets;
- Expected physical wear and tear;
- Technical or commercial obsolescence; and
- Changes in the service potential of assets.

Provisions and long-term employee benefits

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

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

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

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

Long-term employee benefits are determined by independent actuaries based on assumptions listed in note 12.

Impairment of trade receivables

A debtor is regarded as impaired if there is objective evidence, as a result of one or more events that occurred after initial recognition, that it is impaired. The entity assesses at each reporting date whether there is objective evidence that the debtor should be impaired. An account that is in excess of 120 days with no current activity is viewed as objective evidence for possible impairment.

1.2 Financial instruments

Initial recognition and measurement

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

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

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

Subsequent measurement

Receivables from exchange transactions and receivables from non-exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Payables from exchange transactions

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

Borrowings

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

Cash and cash equivalents

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

Offset

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

Effective interest rate

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

Determination of fair value

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis.

If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Derecognition

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

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

Financial liabilities or parts thereof are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, 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 affected when the debtor is deemed to be fully impaired and not recoverable.

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

1.3 Intangible assets

Initial recognition and measurement

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

Subsequent measurement

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

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

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

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

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

Asset category	Average useful life
Computer software, internally generated	3–5 years
Computer software, acquired	3–5 years
Computer software, work-in-progress	Not depreciated

Derecognition

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

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

Impairment

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

1.4 Property, plant and equipment

Initial recognition and measurement

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

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

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

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

Subsequent measurement

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

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

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

Asset category	Average useful life
Vehicles	
• Trucks and vehicles	5–8 years
• Trailers	10 years
Office equipment	
• Office furniture	10 years
• Office equipment	5–7 years
IT equipment	5–8 years
Leasehold improvements	Term of the lease: 5–10 years
Laboratory equipment	10–13 years
Capital work-in-progress	Not depreciated

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

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

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

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

Derecognition

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

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

Impairment

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

1.5 Investment property

Initial recognition and measurement

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

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

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

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

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

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

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

Subsequent measurement

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

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

Asset category	Average useful life
Property - land	Not depreciated
Property - buildings	30 years

Derecognition

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

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

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

Impairment

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

1.6 Impairment of non-financial assets

Recognition

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset.

Measurement

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value-in-use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash generating asset the value-in-use is determined through one of the following approaches:

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach – Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach – the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, other fair value indicators are used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the entity makes an estimate of the asset's or cash-generating unit's recoverable amount.

Reversal of impairment losses

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.7 Leases

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The following are indicators that a lease should be classified as a finance lease:

- the lease transfers ownership of the asset to the entity by the end of the lease term;
- the entity has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications; and
- the leased assets cannot easily be replaced by another asset.

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

Finance leases – lessee

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

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

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

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

Operating leases – lessee

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

1.8 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services 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 12 months after the end of the period in which the employees render the related service.

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

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 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 12 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 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.

Post-employment benefits – defined benefit plans

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

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

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

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

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

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

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

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

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

Independent qualified actuaries carry out valuations of these obligations.

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

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

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

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

1.9 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

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

Recognition

Revenue arising from non-exchange transactions is only recognised if:

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

Measurement

Revenue is the net of the asset recognised at cost or fair value less the fair value of any liability resulting from the non-exchange transaction.

Levies

Levies for compulsory specifications are based on declarations of volumes of regulated products manufactured or imported.
Levies for compulsory specifications are recognised only when a levy payer has filed a levy declaration as this is when the initial recognition criteria is met.

The recognition of the levy debtor is initially measured at the transaction amount which is determined by reference to the published tariff per unit on regulated products, multiplied by the number of units declared. If it is deemed reliable, levy debtors may be estimated with reference to historical levy declarations, to the maximum number of units over a period of 5 years.

The NRCS does not have an obligation that arises in respect of levies for compulsory specifications and therefore the levy revenue is recognised at the amount of the levy debtor, or if earlier, the cash received with levy declaration.

Levy revenue is then only recognised once it becomes due and payable.

Government grants

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

1.12 Investment income

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

1.13 Translation of foreign currencies

Foreign currency transactions

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

1.14 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, 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 Statement of Comparison of Budget and Actual Amounts.

1.17 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or *vice versa*, or an entity that is subject to common control or joint control.

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

The entity does not disclose related party transactions if the transaction occurs within a normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and on terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

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

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

1.18 Transfer of functions from an entity under common control

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

1.19 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.

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, 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 32	Service concession arrangements: Grantor	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
GRAP 108	Statutory receivables	None announced
IGRAP 17	Interpretation of the Standard of GRAP on service concession arrangements where a grantor controls a significant residual interest in an asset	None announced

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

1.22 Statements of GRAP issued and effective

The following statements of GRAP became effective during the period under review:

Statement	
GRAP 5 (revised)	Borrowing costs
GRAP 100 (revised)	Non-current assets held for sale and discontinued operations

The adoption of these standards of GRAP has not had any material impact on the entity.

2. Cash and cash equivalents

	2015 R	2014 R
Cash and cash equivalents comprise the following:		
Cash on hand	15 639	15 767
Bank balances	18 977 407	33 095 727
Reserve Bank – Corporation for Public Deposits	187 676 112	117 831 073
Cash and cash equivalents as per the Cash Flow Statement	206 669 158	150 942 567

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

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

3. Trade and other receivables from exchange transactions

3.1. Trade and other receivables from exchange transactions

	Notes	2015 R	2014 R
Trade receivables		7 368 177	3 823 669
Less: Adjustment to fair value on initial recognition		(43 977)	(50 567)
Trade receivables at amortised cost		7 324 200	3 773 102
Less: Impairment of trade receivables	3.2	(1 760 168)	(262 814)
Net trade receivables		**5 564 032**	**3 510 288**
Other receivables		**3 717 885**	**1 011 595**
Employee advances		596 666	460 779
Prepaid expenses		3 121 219	550 816
Trade and other receivables from exchange transactions		9 281 917	4 521 883

3.2. Impairment of trade and other receivables from exchange transactions

	2015 R	2014 R
Opening balance	262 814	-
Amounts utilised – written off as irrecoverable	(116 471)	-
Increase in impairment provision	1 613 825	262 814
Closing balance	1 760 168	262 814

Trade receivables are impaired on an individual basis. The impairment of trade receivables has been determined with reference to past default experience and the current economic environment in which these entities trade. The following is considered as objective evidence that a trade receivable is impaired:

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

The NRCS does not hold any collateral as security.

As at 31 March 2015, 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
2015	5 564 032	3 583 760	1 339 175	288 978	242 462	109 657
%	100%	64%	24%	5%	4%	2%
2014	3 510 288	2 604 820	160 909	153 830	31 855	558 874
%	100%	74%	5%	4%	1%	16%

4. Trade and other receivables from non-exchange transactions

4.1. Trade and other receivables from non-exchange transactions

	Notes	2015 R	2014 R
Trade receivables		17 511 062	10 536 060
Less: Adjustment to fair value on initial recognition		(54 089)	(136 719)
Trade receivables at amortised cost		17 456 973	10 399 341
Less: Impairment of trade receivables	4.2	(3 095 538)	(710 571)
Net trade receivables		14 361 435	9 688 770

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

	2015 R	2014 R
Opening balance	710 571	2 022 859
Amounts utilised – written off as irrecoverable	(314 904)	(1 084 319)
Increase in impairment provision	2 699 871	(227 969)
Closing balance	**3 095 538**	**710 571**

Trade receivables are impaired on an individual basis. The impairment of trade receivables has been determined with reference to past default experience and the current economic environment in which these entities trade. The following is considered as objective evidence that a trade receivable is impaired:

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

The NRCS does not hold any collateral as security.

As at 31 March 2015, 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
2015	14 361 435	12 205 109	1 036 175	792 112	163 225	164 814
%	100%	85%	7%	6%	1%	1%
2014	9 688 770	7 240 656	435 049	415 909	86 125	1 511 031
%	100%	75%	4%	4%	1%	16%

5. Deposits

	2015 R	2014 R
Operating leases	312 000	312 000
Fleet cards	10 000	10 000
Municipalities	6 266	6 266
	328 266	**328 266**

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

6. Intangible assets

2015	Work-in-progress R	Computer software – purchased R	Total R
Opening carrying amount	4 013 040	26 894	4 039 934
Gross carrying amount	4 013 040	984 311	4 997 351
Accumulated amortisation	-	(957 417)	(957 417)
Additions	166 725	-	166 725
Amortisation	-	(520 697)	(520 697)
Transfers	(4 179 765)	4 179 765	-
Closing carrying amount	**-**	**3 685 962**	**3 685 962**
Gross carrying amount	-	5 164 076	5 164 076
Accumulated amortisation	-	(1 478 114)	(1 478 114)

2014	Work-in-progress R	Computer software – purchased R	Total R
Opening 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)
Additions	474 115	-	474 115
Amortisation	-	(559 547)	(559 547)
Derecognised at carrying amounts	-	(458 244)	(458 244)
Closing carrying amount	**4 013 040**	**26 894**	**4 039 934**
Gross carrying amount	4 013 040	984 311	4 997 351
Accumulated amortisation	-	(957 417)	(957 417)

7. Property, plant and equipment

2015	Work-in-progress R	Furniture and office equipment R	Laboratory equipment R	Operating lease improvements R	Vehicles R	Total R
Opening carrying amount	83 236	6 210 691	1 765 052	434 566	359 442	8 852 987
Gross carrying amount	83 236	12 060 315	4 000 743	914 390	662 970	17 721 654
Accumulated depreciation and impairment losses	-	(5 849 624)	(2 235 691)	(479 824)	(303 528)	(8 868 667)
Additions	-	673 193	28 969	-	404 501	1 106 663
Depreciation	-	(1 561 738)	(309 229)	(119 964)	(103 416)	(2 094 347)
Derecognised at carrying amounts	-	(55 805)	(20 735)	(21 619)	(100)	(98 259)
Transfers	(83 236)	(31 925)	83 236	31 925	-	-
Closing carrying amount	-	**5 234 416**	**1 547 293**	**324 908**	**660 427**	**7 767 044**
Gross carrying amount	-	12 145 116	4 063 595	766 291	1 067 371	18 042 373
Accumulated depreciation and impairment losses	-	(6 910 700)	(2 516 302)	(441 383)	(406 944)	(10 275 329)

2014 (Restated)	Work-in-progress R	Furniture and office equipment R	Laboratory equipment R	Operating lease improvements R	Vehicles R	Total R
Opening carrying amount	528 360	4 978 865	2 153 276	985 391	378 096	9 023 988
Gross carrying amount	528 360	9 773 901	4 022 056	1 376 908	600 270	16 301 495
Accumulated depreciation	-	(4 795 036)	(1 868 780)	(391 517)	(222 174)	(7 277 507)
Additions	834 390	905 600	67 899	175 988	-	1 983 877
Depreciation	-	(1 348 000)	(409 162)	(226 854)	(81 354)	(2 065 370)
Impairment	-	(15 096)	-	-	-	(15 096)
Derecognised at carrying amounts	-	(27 451)	(46 961)	-	-	(74 412)
Transfers	(1 279 514)	1 716 773	-	(499 959)	62 700	-
Closing carrying amount	**83 236**	**6 210 691**	**1 765 052**	**434 566**	**359 442**	**8 852 987**
Gross carrying amount	83 236	12 060 315	4 000 743	914 390	662 970	17 721 654
Accumulated depreciation and impairment losses	-	(5 849 624)	(2 235 691)	(479 824)	(303 528)	(8 868 667)

The category of furniture and office equipment includes equipment leased from third parties under operating leases which are deemed to be finance leases as these assets are utilised for the majority of their useful lives. The assets under deemed finance leases have the following carrying amounts:

Assets leased under deemed finance leases

	Furniture and office equipment	
	2015 R	2014 R
Opening carrying amount	36 657	134 552
Depreciation	(36 657)	(97 895)
Closing carrying amount	**-**	**36 657**

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

Details of the finance lease obligations are disclosed in note 10.

8. Investment property

	2015 R	2014 R
Opening carrying amount	6 415 110	7 127 900
Gross carrying amount	8 000 000	8 000 000
Accumulated depreciation and impairment losses	(1 584 890)	(872 100)
Depreciation	(77 724)	(152 778)
Impairment	-	(560 012)
Closing carrying amount	**6 337 386**	**6 415 110**
Gross carrying amount	8 000 000	8 000 000
Accumulated depreciation and impairment losses	(1 662 614)	(1 584 890)

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 periodically by independent valuers based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. The fair value at reporting date was determined to be R6 415 110 (2014: R6 415 110) as per a valuation performed at 31 March 2014.

During the period under review agreement was reached with the SABS that the NRCS will collect rental on the property and pay rates and taxes due on the property.

9. Trade and other payables from exchange transactions

	2015 R	2014 R
Trade payables	7 750 390	6 098 877
Other payables	28 987	55 938
Salary related accruals	5 715 552	9 779 710
Income received in advance	2 072 778	1 275 217
Trade receivables with credit balances[1]	162 270	164 621
Deferred operating lease accrual – current portion	4 508 620	4 874 896
	20 238 597	**22 249 259**

[1] Trade receivables with credit balances refer to the debtors whose accounts were in credit at reporting date due to credit notes that were issued and not utilised, or overpayments received.

10. Interest bearing borrowings

	2015 R	2014 R
Total future minimum finance lease payments	-	44 375
- Payable not later than one year	-	44 375
- Payable between two and five years	-	-
Less: Unpaid future finance charges	-	(2 070)
Present value of future minimum finance lease payments	-	42 305
- Payable not later than one year	-	42 305
- Payable between two and five years	-	-

The lease liabilities are effectively secured,as the rights to the leased assets revert to the lessor in the event of default. The carrying amount of leased assets is R Nil (2014: R36 657) (Refer to note 7).

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

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

11. Provisions

11.1 Performance bonus

Provision for bonuses payable.

	2015 R	2014 R
Balance as at the beginning of the year	-	5 231 296
Amount utilised in the current year	-	-
Provision raised/(reversed) during the year	8 183 831	(5 231 296)
Balance as at the end of the year	8 183 831	-

11.2 Leave pay

Leave pay includes annual and backlog leave pay provided for in terms of employment contracts and the internal policies of the NRCS.

	2015 R	2014 R
Balance as at the beginning of the year	11 477 170	9 843 034
Amount utilised in the current year	(291 557)	(1 380 000)
Leave encashed during the year	-	(4 415 354)
Provision raised during the year	2 790 209	7 429 490
Balance as at the end of the year	13 975 822	11 477 170
Total provisions	**22 159 653**	**11 477 170**

12. Employee benefit obligations

2015	Post-retirement medical aid R	Long service leave awards R	Total R
Opening balance	9 141 780	12 044 833	21 186 613
Current service cost	290 325	1 123 770	1 414 095
Interest cost	855 671	1 033 892	1 889 563
Actuarial (profit)/loss	(865 905)	2 206 156	1 340 251
Benefits paid	(120 635)	(1 923 261)	(2 043 896)
Closing balance	**9 301 236**	**14 485 390**	**23 786 626**
Current portion of employee benefit obligations	793 860	763 935	1 557 795
Non-current portion of employee benefit obligations	8 507 376	13 721 455	22 228 831

2014	Post-retirement medical aid R	Long service leave awards R	Total R
Opening balance	10 121 814	11 354 901	21 476 715
Current service cost	271 004	1 019 499	1 290 503
Interest cost	759 136	851 618	1 610 754
Actuarial (profit)/loss	(1 887 410)	90 534	(1 796 876)
Benefits paid	(122 764)	(1 271 719)	(1 394 483)
Closing balance	**9 141 780**	**12 044 833**	**21 186 613**
Current portion of employee benefit obligations	235 015	623 944	858 959
Non-current portion of employee benefit obligations	8 906 765	11 420 889	20 327 654

12.1 Post-retirement medical aid obligation

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

- The employee was employed before 1 September 1998 (within either **the dti** or the SABS)
- The employee participated in the Bestmed medical aid scheme for at least ten years
- 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 2015.

Key assumptions used:

	2015	2014
Discount rate per annum	8.84%	9.36%
Medical aid inflation	6.46%	6.66%
Average retirement age	62 years	61.5 years
Active members expected to continue after retirement	100.00%	100.00%

There are no plan assets for this liability.

Sensitivity analysis

The effects on the central basis liability results for 2015 when the medical aid inflation rate is increased and decreased by 1%.

Changes to medical inflation	Liability R	Change in liability %
+1%	10 648 934	14.5%
Central	9 301 236	
-1%	8 182 370	-12.0%

12.2 Long service leave award obligation

The NRCS provides employees, previously employed by the SABS before 1 March 2008, with three additional leave days after five years of service and another three days after ten years of service. Employees' annual leave entitlement is increased with these days. The NRCS's net obligation in this regard is the amount of future benefits that employees have earned in return for their services in current and prior periods. This obligation is valued annually by independent, qualified actuaries. Any unrecognised actuarial gains/losses and past service costs are recognised immediately.

Key assumptions used:

	2015	2014
Discount rate per annum	7.86%	8.58%
Salary inflation	7.00%	7.21%

There are no plan assets for this liability.

Sensitivity analysis

The effects on the central basis liability results for 2015 when the discount rate is increased and decreased by 1%.

Sensitivity to changes in discount rate		Liability R	Change in liability %
	+1%	13 520 359	-6.66%
	Central	14 485 390	
	-1%	15 577 211	7.54%

12.3 Historical information relating to employee benefit obligations

	2015 R	2014 R	2013 R	2012 R	2011 R
Post-retirement medical aid liability	9 301 236	9 141 780	10 121 814	7 989 543	7 060 000
Experience adjustments	(865 905)	(1 887 410)	1 312 485	175 000	50 000
Long service leave award liability	14 485 390	12 044 833	11 354 901	9 961 812	8 425 000
Experience adjustments	2 206 156	90 534	816 890	908 000	284 000

13. Exchange revenue

	2015 R	2014 R
Tests and services	7 830 120	6 999 278
Export certification	5 663 914	5 550 054
Vehicle homologation	6 339 499	6 138 361
Letter of Authority (LoA)	20 793 009	12 886 000
Electrical compliance certificate	823 450	944 304
Gaming: Letter of compliance	813 867	993 748
	42 263 859	**33 511 745**

14. Sundry income

	2015 R	2014 R
Surplus on transfer of functions from SABS (refer to note 24.1)	-	5 604 124
SETA refunds	-	274 679
Refunds for expenses incurred	783 371	454 709
Realised net foreign exchange (loss)/profit	-	(1 584)
	783 371	**6 331 928**

15. Contract services

	2015 R	2014 R
Internal audit, risk management and levy audits	-	1 293 803
IT services	4 994 139	5 777 963
Accreditation	396 510	418 898
Temporary placements	65 115	619 223
HR and labour-related costs	376 097	1 313 651
National Building Regulations Review Board representation	387 129	120 317
Travel agency commission	307 665	516 140
Other contractual services	457 121	1 731 496
	6 983 776	**11 791 491**

16. Employment cost

	2015 R	2014 R
Salaries and wages	177 252 049	142 025 857
Medical aid and other employment benefits	7 510 672	6 322 890
Pension costs	13 006 574	12 568 353
Training costs	3 516 359	3 710 288
Long-service awards	-	15 000
Non-executive emoluments (note 24.5)	461 987	1 306 468
Executive management and other key management emoluments (note 24.5)	12 838 745	12 620 048
	214 586 386	**178 568 904**
Post-employment healthcare benefits (note 12)	159 456	(980 034)
Long service leave awards (note 12)	2 440 557	689 932
	217 186 399	**178 278 802**

17. Office rentals and other operating lease expenses

	2015 R	2014 R
Rentals in respect of operating leases (minimum lease payments)		
- Land and buildings	12 063 875	13 595 908
- Vehicles	17 503	133 241
- Equipment	179 535	145 419
	12 260 913	**13 874 568**

18. Other expenditure

	2015 R	2014 R
Included in other expenditure is the following:		
Auditors' remuneration	2 749 918	2 385 858
- Current year	264 529	204 661
- Prior year	2 485 389	2 181 197
Irrecoverable debts	4 340 932	133 189
- Irrecoverable debts written off	480 125	1 189 930
- Irrecoverable debts recovered	(21 514)	(7 267)
- Increase/(decrease) in impairment of trade and other receivables	3 882 321	(1 049 474)
Casual labour	185 863	239 420
Conferences	63 300	412 439
Consumables	39 641	115 988
Entertainment	1 475	12 571
Foreign exchange losses	17 067	615
Insurance	462 127	796 928
Legal costs	862 805	35 065
Municipal costs	2 781 491	2 129 521
Office and administration expenses	4 422 574	5 586 251
Repairs and maintenance	527 843	438 414
Software costs	3 709 821	1 215 252
Staff recruitment costs	66 446	518 744
Staff welfare costs	1 320 782	790 514
Storage of seized goods	154 394	944 886
Vehicle costs	232 952	170 244
Loss on property, plant and equipment due to theft	5 445	10 818
Loss on derecognition of property, plant and equipment	92 814	521 838
	22 037 690	**16 458 555**

19. Interest received

	2015 R	2014 R
Cash equivalents – financial assets at amortised cost	10 760 858	6 869 550
Trade debtors	262 062	317 209
	11 022 920	**7 186 759**

20. Finance cost

	2015 R	2014 R
Other finance cost	-	1 840
Finance lease charges	2 069	10 376
	2 069	**12 216**

21. Notes to the statement of cash flows

	2015 R	2014 R
Reconciliation of net surplus to cash generated from operations		
Operating surplus for the period	**41 391 271**	**37 708 310**
Adjustments for non-cash items:	**20 435 969**	**138 653**
Surplus on transfer of functions from the SABS	-	(5 604 124)
Fair value building rented from the SABS	-	5 604 124
Depreciation on property, plant and equipment	2 094 347	2 065 370
Impairment of property, plant and equipment	-	15 096
Amortisation of intangible assets	520 697	559 547
Depreciation on investment property	77 724	152 778
Impairment of investment property	-	560 012
Irrecoverable debts written off	480 125	1 189 930
Loss on property, plant and equipment due to theft	5 445	10 818
Loss on derecognition of property, plant and equipment	92 814	521 838
Carrying amount of assets disposed	92 814	521 838
Proceeds of disposal	-	-
Provision for employee benefit obligations	4 643 909	1 104 381
Employee benefits paid from provision	(2 043 896)	(1 394 483)
Increase/(decrease) in provisions	10 682 483	(3 597 160)
Increase/(decrease) in impairment of trade and other receivables	3 882 321	(1 049 474)
Operating surplus before working capital changes	**61 827 240**	**37 846 963**
Changes in working capital	**(15 805 807)**	**(10 956 277)**
(Increase)/decrease in trade and other receivables from exchange transactions	(6 607 879)	(1 194 326)
(Increase)/decrease in trade and other receivables from non-exchange transactions	(7 187 266)	(2 183 044)
Decrease in trade and other payables	(2 010 662)	(7 578 907)
Cash flows from operating activities	**46 021 433**	**26 890 686**

22. Commitments

	2015 R	2014 R
Commitments for the acquisition of property, plant and equipment and intangible assets (contracted)	4 023 775	747 109
Commitments for operating expenditure at year end	11 421 742	12 256 454
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	5 128 793	4 715 432
- Payable between two and five years	13 918 798	19 047 591

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 before the expiry of the initial period of the lease.

23. Financial risk management

23.1 Foreign currency risk management

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

Forward exchange contracts – recognised transactions

No forward exchange contracts were entered into during the reporting periods ended 31 March 2015 and 31 March 2014.

23.2 Interest rate risk management

The entity is exposed to interest rate risk as it places funds in the current and investment account at floating interest rates. Interest rate risk is managed through effective cash management.

The interest rate re-pricing profile at 31 March 2015 is summarised as follows:

	2015 R Floating rate	2014 R Floating rate
Cash and cash equivalents	206 669 158	150 942 567
% of total bank balances	100%	100%

If interest rates on 31 March 2015 had been 100 basis points (1%) higher or lower (and all other variables remained constant), the surplus for the period would have been R2 066 940 (2014: R1 509 426) lower or higher.

23.3 Liquidity risk management

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

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

2015	Within 1 month R	1–3 months R	3–12 months R	1–5 Years R	Total R
Financial liabilities					
Trade and other payables	(7 779 377)	(7 788 330)	-	(4 670 890)	(20 238 597)

2014	Within 1 month R	1–3 months R	3–12 months R	1–5 Years R	Total R
Financial liabilities					
Trade and other payables	(6 154 815)	(11 054 927)	-	(5 039 517)	(22 249 259)
Interest bearing borrowings	(5 547)	(16 641)	(22 187)	-	(44 375)

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

23.4 Credit risk management

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

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

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 2015, 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. Related party transactions

24.1 Transactions with related parties

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

The impact of the Memorandum of Understanding on the Financial Statements is listed below:*

	2015 R	2014 R
Fair value of non-exchange transaction as per Memorandum of Understanding	-	2 447 051
Fair value of difference between market-related rental and rental charged by the SABS	-	3 157 073
Net assets transferred	**-**	**5 604 124**

* During the year under review the SABS recovered 50% of rental charged for the period under review and escalated the contract to market-related rental.

24.2 Purchases from related parties

2015	Purchases R	Balance outstanding R
National government business enterprises		
South African Bureau of Standards (SABS)*	14 244 147	4 859 593

* Included in this amount is an amount of R3 885 499 relating to recovery of the 50% portion of the SABS rental for the period under review (refer to note 24.1).

2014	Purchases R	Balance outstanding R
National government business enterprises		
South African Bureau of Standards (SABS)	14 678 810	2 082 307

24.3 Exchange revenue from related parties

2015	Sales R	Balance outstanding R
South African Bureau of Standards (SABS)	43 878	10 119

2014	Sales R	Balance outstanding R
South African Bureau of Standards (SABS)	45 094	8 676

Levies and other receipts to the value of R24 489 (2014: R51 219) were collected and paid by SABS to the NRCS.

24.4 Non-exchange revenue from related parties

	2015 R	2014 R
Received from **the dti**	109 734 000	103 000 000

24.5 Key management personnel compensation

The following emoluments were paid to the Board members. These amounts do not include travel expenses paid by the NRCS on behalf of the Board Members:

2015	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
Non-executive: Board members				
J Molobela (Chairperson)	B	61 462	891	62 353
FA Melato	B	39 794	1 069	40 863
SE Moolman	B	29 696	413	30 109
DN Ndaba	B	50 678	3 975	54 653
Prof. S Perumal	B	32 154	-	32 154
P Serote	B	11 028	-	11 028
NMW Vermeulen	B	28 404	1 782	30 186
S Zikode	A	-	-	-
		253 216	**8 130**	**261 346**
Non-executive: Audit and Risk Committee members				
SAH Kajee (Chairperson)		111 549	-	111 549
AD Cowell		65 000	2 365	67 365
T Mofokeng		21 450	277	21 727
K Naidoo	A	-		-
		197 999	**2 642**	**200 641**
Total non-executive remuneration		**451 215**	**10 772**	**461 987**

2014	Notes	Fees as Board and Committee member R	Reimbursive travel claims R	Total R
Non-executive: Board members				
J Molobela (Chairperson)		127 666	1 341	129 007
FA Melato		137 866	10 110	147 976
SE Moolman		150 273	1 015	151 288
DN Ndaba		183 700	16 787	200 487
Prof. S Perumal		135 146	-	135 146
P Serote		47 692	2 916	50 608
NMW Vermeulen		126 926	7 416	134 342
S Zikode	A	-	-	-
		909 269	**39 585**	**948 854**
Non-executive: Audit and Risk Committee members				
SAH Kajee (Chairperson)		135 013	-	135 013
AD Cowell		112 545	250	112 795
T Mofokeng		109 554	252	109 806
K Naidoo	A	-	-	-
		357 112	**502**	**357 614**
Total non-executive remuneration		**1 266 381**	**40 087**	**1 306 468**

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

B. The Board was dissolved following the proclamation of the Legal Metrology Act on 31 July 2014.

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

2015	Notes	Basic salary R	Leave encashment R	Retirement and medical aid R	Other allowances R	Total R
Executive						
A Moodley – CEO	C	1 653 588	-	-	83 600	1 737 188
M Thibela – Acting Deputy CEO	E	120 171	-	15 622	57 489	193 282
R Mathura – CFO	A	1 106 901	-	126 418	59 462	1 292 781
Total executive remuneration		**2 880 660**	**-**	**142 040**	**200 551**	**3 223 251**
Key management						
SH Carstens		1 009 440	-	178 640	7 200	1 195 280
FLR Fourie		1 005 938	-	160 514	31 200	1 197 652
A Hirachund		1 036 709	-	152 571	7 200	1 196 480
MN Katz		1 016 058	-	126 170	7 200	1 149 428
B Khanyile		1 080 144	-	132 331	7 200	1 219 675
MT Madzivhe		1 058 976	-	130 094	7 200	1 196 270
P Mazibuko		1 059 807	-	124 934	7 200	1 191 941
R Mbukwane	D	192 705	-	32 016	139 790	364 511
MS Mkhabela		810 039	-	78 546	15 672	904 257
Total key management remuneration		**8 269 816**	**-**	**1 115 816**	**229 862**	**9 615 494**
Total remuneration		**11 150 476**	**-**	**1 257 856**	**430 413**	**12 838 745**

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

2014 (restated)	Notes	Basic salary R	Leave encashment R	Retirement and medical aid R	Other allowances R	Total R
Executive						
A Moodley – CEO	C	1 227 302	-	-	66 876	1 294 178
K Temba – Acting CEO		159 617	-	22 632	148 229	330 478
R Mathura – CFO	A	1 151 616	-	112 505	73 034	1 337 155
Total executive remuneration		**2 538 535**	**-**	**135 137**	**288 139**	**2 961 811**
Key management						
SH Carstens		926 101	85 902	155 503	6 900	1 174 406
FLR Fourie		949 314	59 574	145 567	6 900	1 161 355
A Hirachund		964 346	71 862	138 696	6 900	1 181 804
MN Katz		808 846	-	102 315	111 937	1 023 098
B Khanyile		1 007 084	229 632	121 749	11 600	1 370 065
MT Madzivhe		975 755	71 862	118 165	6 900	1 172 682
P Mazibuko		995 184	71 862	93 476	8 839	1 169 361
MS Mkhabela		746 310	33 976	69 180	9 374	858 840
K Temba	B	432 115	53 804	58 607	2 100	546 626
Total key management remuneration		**7 805 055**	**678 474**	**1 003 258**	**171 450**	**9 658 237**
Total remuneration		**10 343 590**	**678 474**	**1 138 395**	**459 589**	**12 620 048**

A. Included in the remuneration of the CFO is an amount of R166 565 relating to incorrect implementation of the CFO's employment contract. This amount was paid during the period under review.
B. Mr. Temba resigned effective 28 February 2014.
C. The CEO is also a Board Member in terms of the NRCS Act, Act No. 5 of 2008.
D. Acting as General Manager from 1 December 2014.
E. **the dti** representative seconded from 1 February 2015.

25. Contingent liabilities

The following contingent liabilities exist at reporting date:

- Section 53(3) of the PFMA states that a public entity may not accumulate surpluses unless prior written approval of the National Treasury has been obtained. Application to retain 2014 surpluses has been approved by National Treasury, but the application has not yet been submitted for the current reporting period.
- The Career Development Programme for support staff within the NRCS has been agreed to be effective from 1 July 2014. The financial impact of the agreement cannot be reliably determined as the Career Development Programme has not been developed yet.

26. Fruitless and wasteful expenditure

26.1 Fruitless and wasteful expenditure

	2015 R	2014 R
Opening balance	**440 104**	**438 264**
- Interest paid	34 131	32 291
- Duplicated services	387 169	387 169
- Training paid for and not attended	18 804	18 804
Fruitless and wasteful expenditure incurred during the reporting period	**11 602**	**425 089**
- Interest paid	11 602	1 840
- Payments to correct employees' tax and interest thereon	-	423 249
Fruitless and wasteful expenditure condoned during the reporting period	**-**	**(423 249)**
Closing balance	**451 706**	**440 104**

Investigations into fruitless and wasteful expenditure have been or are in progress. No disciplinary action was instituted thus far as fruitless and wasteful expenditure could not be attributed to a single person.

26.2 Losses through criminal conduct

	2015 R	2014 R
Computer equipment stolen derecognised at carrying value.	5 445	10 818

Insurance claims have been submitted for these assets in the cases where it was economically viable to do so.

27. 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 originating in the current reporting period did not comply with the above procedures to the value of R7 291 817 (2014: R5 829 569).

	2015 R	2014 R
Opening balance	**1 195 964**	**53 310 670**
Irregular expenditure – current year	**7 291 817**	**5 829 569**
- Payments affected on expired contracts*	6 982 827	1 654 807
- Payments contravening Treasury Regulations	308 990	4 161 290
- Payments affected contravening the NRCS's delegation of authority	-	13 472
Amounts condoned during the year	**(8 394 621)**	**(57 944 275)**
Closing balance	**93 160**	**1 195 964**
- Payments affected on expired contracts	93 160	945 540
- Payments contravening Treasury Regulations	-	236 952
- Payments affected contravening the NRCS's delegation of authority	-	13 472
Analysis of expenditure awaiting condonation	93 160	1 195 964
Testing	-	-
Other irregular expenditure	93 160	1 195 964
Total	**93 160**	**1 195 964**

* Included in this amount is R6 629 896 paid to the SABS after the NRCS's lease contract expired on 31 March 2014.

28. Change in estimate

28.1 Review of useful life and residual values of property, plant and equipment

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

	2015 R
Increase in depreciation – property, plant and equipment	359 766

29. Prior period error

29.1 Incorrect implementation of the wage settlement agreement

During the year under review incorrect adjustments to salaries in terms of prior year wage settlements were corrected. The impact on the Annual Financial Statements is as follows:

	2014 (previously reported) R	Adjusted R	2014 R
Statement of financial position			
Current liabilities	**35 111 593**	**(483 900)**	**34 627 693**
Trade and other payables from exchange transactions	22 312 640	(63 381)	22 249 259
Interest bearing borrowings	42 305	-	42 305
Employee benefit obligations	1 697 452	(838 493)	858 959
Provisions	11 059 196	417 974	11 477 170
Non-current liabilities	**18 912 840**	**1 414 814**	**20 327 654**
Employee benefit obligations	18 912 840	1 414 814	20 327 654
	54 024 433	**930 914**	**54 955 347**
Statement of financial performance			
Expenses			
Employment cost	180 665 311	(2 386 509)	178 278 802
Employment cost	144 850 046	(2 824 189)	142 025 857
Salaries and wages	6 322 890	-	6 322 890
Medical aid and other employment benefits	12 568 353	-	12 568 353
Pension costs	3 710 288	-	3 710 288
Training costs	15 000	-	15 000
Long-service awards	1 306 468	-	1 306 468
Non-executive emoluments	12 758 689	(138 641)	12 620 048
Executive management and other key management emoluments	**181 531 734**	**(2 962 830)**	**178 568 904**
	(980 034)	-	(980 034)
Post-employment healthcare benefits	113 611	576 321	689 932
Long service leave awards	**180 665 311**	**(2 386 509)**	**178 278 802**

29.2 Incorrect depreciation calculation of prior years

During the year under review useful lives of various assets were reviewed. It was found that due to the set-up of the Fixed Asset Register, depreciation had been calculated incorrectly in prior years and therefore the opening carrying values of assets had to be restated. The impact on the Annual Financial Statements is as follows:

	2014 (previously reported) R	Adjusted R	2014 R
Statement of financial position			
Non-current assets			
Property, plant and equipment	7 749 914	1 103 073	8 852 987
Statement of financial performance			
Expenses			
Depreciation	2 137 950	80 198	2 218 148
Net effect of prior period errors	**87 085 469**	**(2 134 152)**	**84 951 317**

30. Events after reporting date

	2014 R
The CCMA awarded an acting allowance claimed by an employee of the NRCS. The NRCS settled the amount, but the claimant filed an application to vary the arbitration award. The employee's application was awarded on the 6th of July 2015.	19 655

31. Approval of annual financial statements

The audited Annual Financial Statements were approved by the NRCS Accounting Authority and submitted for audit on 27 May 2015.

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