



**Integrated Annual Report for the 2018/19
Financial Year and 2019/20 Q1 Report
Presentation to the Portfolio Committee on Trade
and Industry – 9 October 2019**

- Delegation's details
- SABS background, objectives and funding model
- FY2019 performance overview
- FY2020: quarter 1 performance overview

DELEGATION'S DETAILS



Mr Garth Strachan
Acting Chief Executive Officer
Office number: +27 12 428 6002
E-mail: Garth.Strachan@sabs.co.za



Ms Tina Maharaj
Chief Financial Officer
Office number: +27 12 428 6457
E-mail: Tina.Maharaj@sabs.co.za



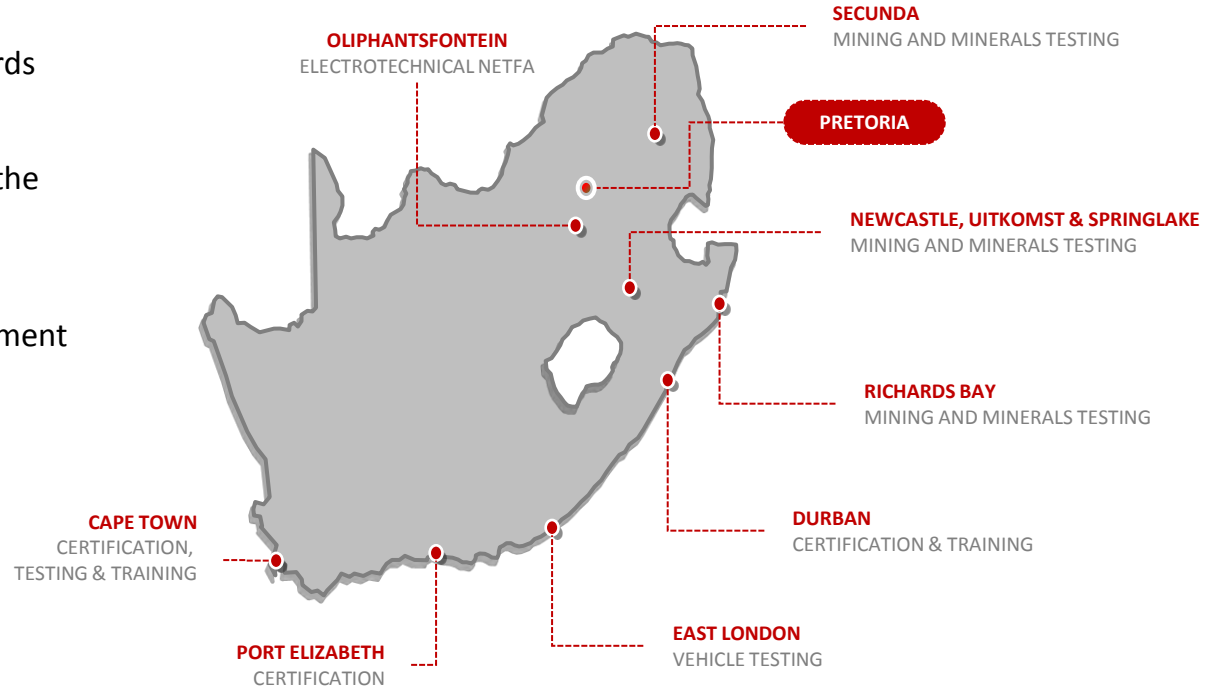
Ms Amanda Gcabashe
Executive: Certification
Office number: +27 12 428 6779
E-mail: Amanda.Gcabasche@sabs.co.za

SABS BACKGROUND

The SABS was established by the Standards Act, 1945 (Act 24 of 1945)

The SABS exists as a public entity under the Standards Act, 2008 (Act 8 of 2008)

The SABS is a Schedule 3B public entity whose Executive Authority is the Department of Trade and Industry (**the dti**).



International Membership



Accreditation of the SABS



Number of staff

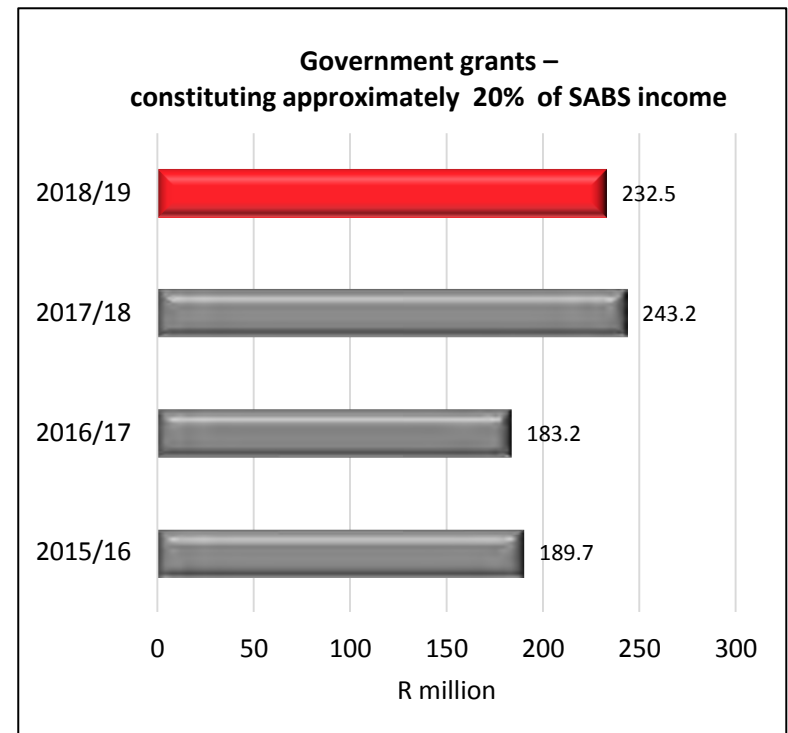
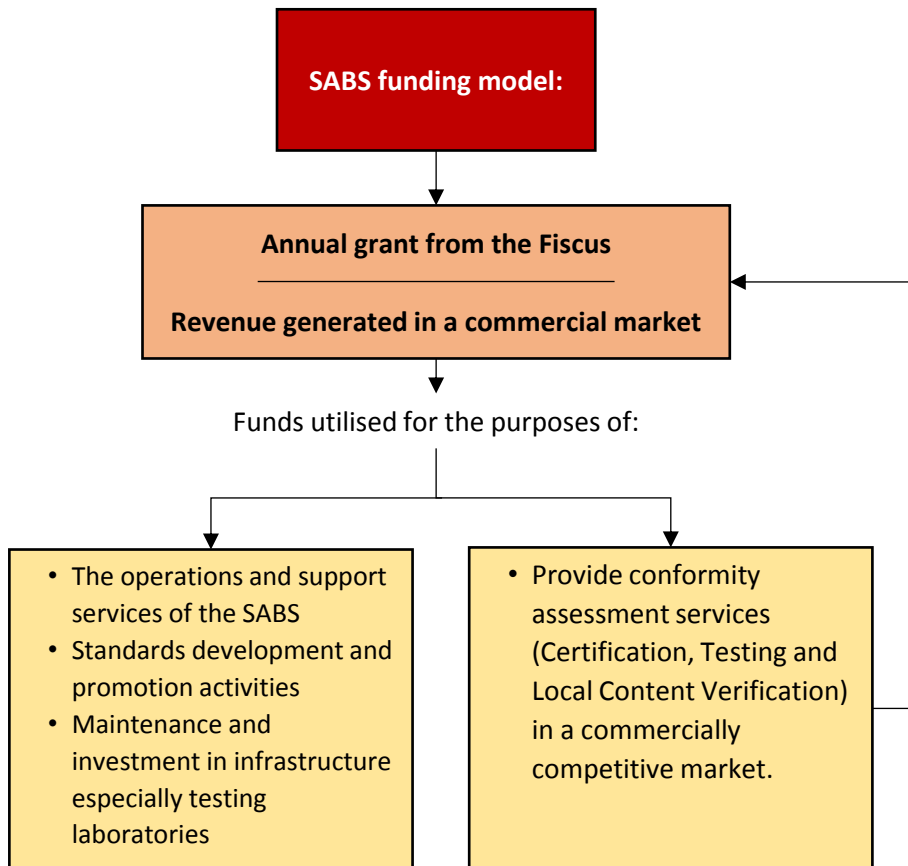
2018 - 922

2019 - 887

South African National Standards (SANS) are voluntary standards and are not prescribed by law

The **objectives of SABS** are as follows:

- To develop, promote and maintain South African National Standards (SANS)
- To promote quality with respect to commodities, products and services for the domestic and export markets
- Providing conformity assessment services – certification, laboratory testing and local content verification



FY2019 PERFORMANCE OVERVIEW

Internal

- SABS was **placed under administration** by the Minister of **the dti** in July 2018:
 - Various operational, financial and governance failures as well under investment in key infrastructure led to a significant decline in performance over the past few years
 - Three Co-administrators appointed to develop and implement a turnaround plan
 - Term extended from January 2019 to October 2019

External

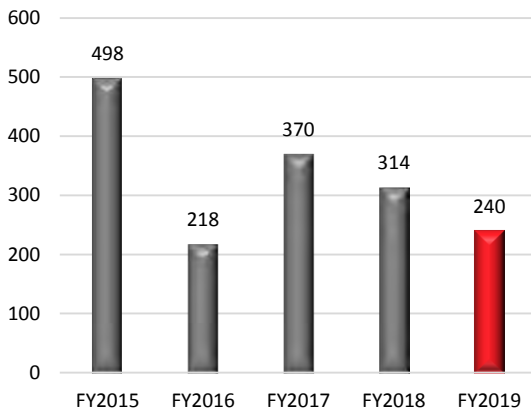
- **Government's industrialisation** efforts seeks to support inclusive, sustainable economic development and increase South Africa's competitiveness in a globalised economy
 - SABS has a critical role to play in these industrialisation efforts, in the development and promotion of standards, the provision of conformity assessment services (Certification and Testing) and local content verification.
- **SABS is not immune to the low economic growth** in South Africa – significantly impacted demand for conformity assessments services



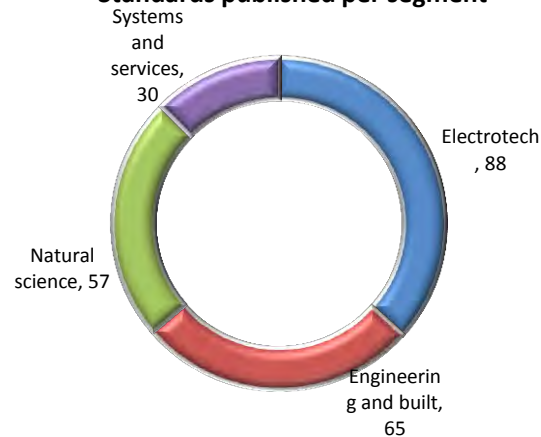
Overall, SABS experienced a challenging FY2019

- SABS maintains ~ 7 440 SANS
- **Published 240 standards** in the year
 - 130 locally developed and 110 adopted
 - 174 technical committees held (FY2018: 194), 2 803 participants (FY2018: 2 660)
- **Increased the engagement and support to regional standard setting bodies**, most notably with Swaziland, Botswana, Namibia and Ethiopia
- **Turnaround times (TAT)** for publishing standards deteriorated to 497 days. TAT impacted by the finalisation of 12 long-term projects which took between 1 854 and 3 296 days to publish. Excluding these, the average turnaround totalled 406 days, which reflects a slight but insufficient improvement compared to the 421 days achieved in FY2018
- Successfully hosted the **2019 ISO General Assembly** in Cape Town in September 2019
- **Sale of standards increased** to R25.9 million (FY2018: 23.5 million)

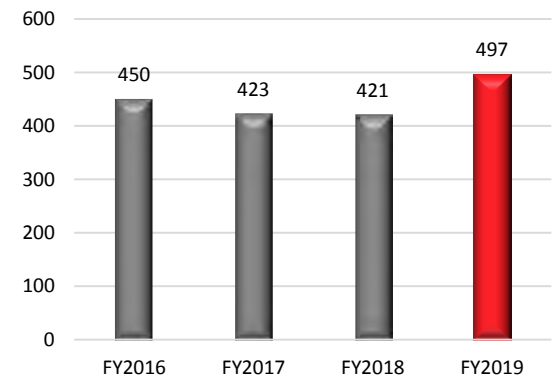
Total number of standards published



Standards published per segment



Average number of days to publish a standard

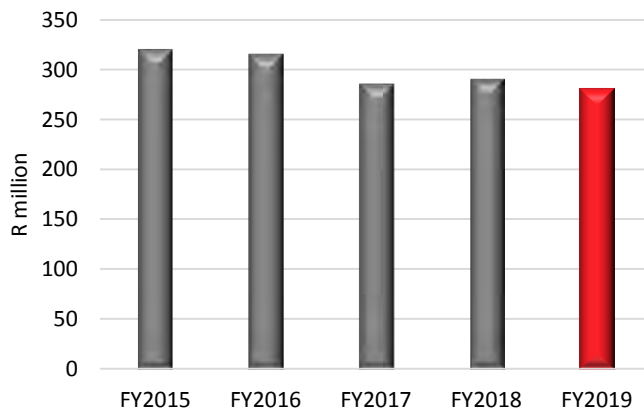


- On an annual basis **SABS implements industrial policy projects** set out by the dti.
- Agreed to **deliver ten projects** as part of the FY2019 IPAP deliverables
 - **Eight projects to develop national standards**
 - Natural science
 - ❖ Protective clothing for hazardous industries (new standard) **Completed**
 - ❖ Wooden poles, droppers, guardrail posts and spacer blocks (revision) **Completed**
 - Engineering and built environment
 - ❖ Pine poles, cross-arms and spacers for power distribution, telephone systems and street lighting (revision) **Completed**
 - ❖ Water efficiency in buildings (new) **In progress**
 - Electrotechnical
 - ❖ Electronic cables with extruded solid dielectric insulation for fixed installation (revision) **In progress**
 - ❖ Plugs and socket outlets for household and similar purpose (revision) **Completed**
 - Systems and services
 - ❖ Information technology security techniques **Completed**
 - ❖ Environmental management (revision) **Completed**
 - **Two projects to promote the harmonisation of standards** across SADC **Completed**

Certification services

- **Maintained SANAS and RvA accreditation** (SABS' main accreditation agencies).
- As part of the **Local Content Verification programme**, SABS conducted 28 tender verifications in terms of the PPPFA at 16 government institutions. In addition 13 products verifications in terms of the Mining Charter was conducted. Income of R11.3 million earned
- **Customer satisfaction rating** improved to 78.4% (FY2018: 76.9%)
- **Revenue declined** by 3.3% to R281.4 million

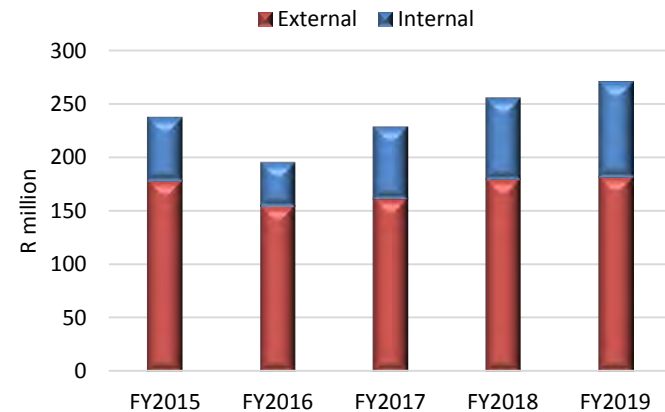
Certification: Revenue



Laboratory services

- Successful reversal of previous decision to stop **customer specific requirements** (CSR) testing
- Introduced phase 1 of the laboratory **equipment renewal programme** to the value of R57 million
- **Three additional laboratories recommended for SANAS accreditation** (SANS 17025:2005). No laboratories' lost any accreditation in the year
- Chromatographic; explosives prevention technology (EPT) as well as the lighting technology business units were **awarded 20-year commendations from SANAS** and recognised in various publications
- Completed the review of the operational procedures and successfully implemented the **SANS 17025:2018 Risk-based Laboratory Management System**.
- **Revenue**, excluding inter-group sales, **increased by 1.1%** to R181.9 million

Laboratory services: Revenue



Internal revenue of R89 million comprises revenue generated from product certification testing conducted on behalf of the Certification division

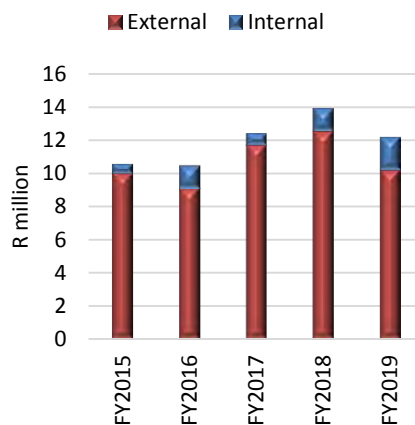
Training Academy

- **Trained 1 765** (FY2018: 2 088) delegates (internal and external)
 - 57% in quality management systems
 - 12% in environmental management systems
- **Launched four new training courses** in the year in the fields of food safety management systems, occupational health and safety management systems (two courses), and finally the transition from ISO 17025: 2005 to ISO 17025:2017
- **Revenue**, excluding inter-group, **declined by 17.9%** to R10.2 million

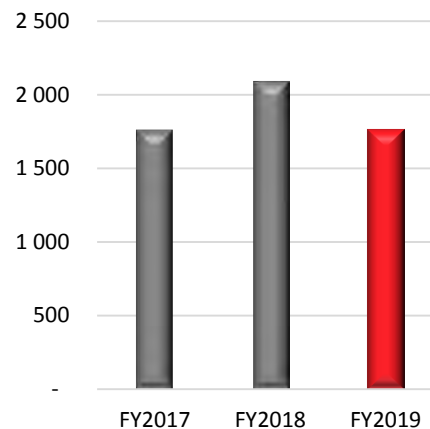
SMME Support

- **Supported 101 SMMEs**, of which 51 were in line with the requirements of the 2018/19 Corporate Plan.
- **Key partners** include the Jobs Fund, Transnet and SEDA North West Economic Development
- Various SMMEs have experienced significant revenue growth following support received from the SABS, for example:
 - Products of a company are now being distributed in retail outlets in five African countries outside South Africa
 - Awarding of government supply contracts in the energy, low-cost housing and construction sectors to three SMMEs
 - Access to new geographical markets in South Africa for a company in the plant hire, civil engineering and ready concrete industry

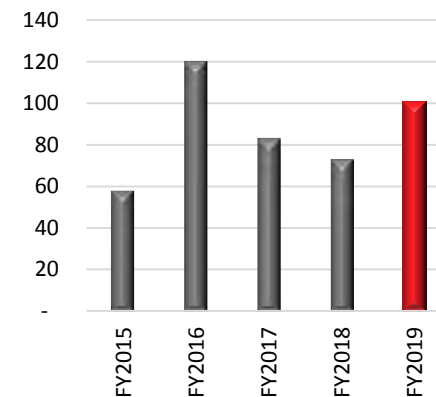
Training Academy: Revenue



Number of trainees



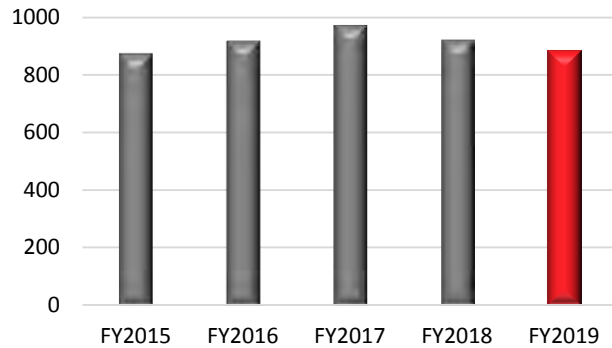
Number of SMME's supported



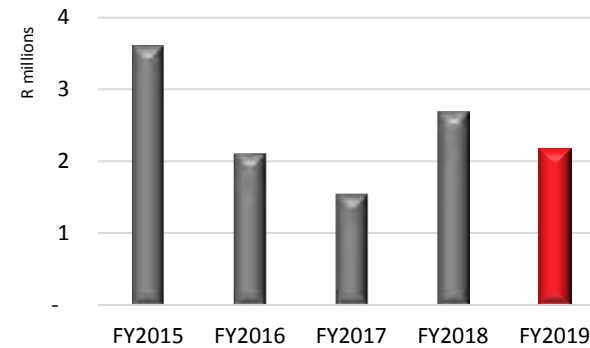
Internal revenue of R2.0 million comprises revenue generated from training offered to inter-group employees

- **Human capital**
 - 887 employees and fixed-term contractors (FY2018: 922)
 - 44% female representation
 - 84% black representation (FY2018: 83%)
 - 1.0% disabled employees
- **Employee development**
 - 548 employees participated in 907 training interventions in the year
 - The SABS' total investment in employee training, excluding bursaries, amounted to R2.2 million (FY2018: R2.7 million)

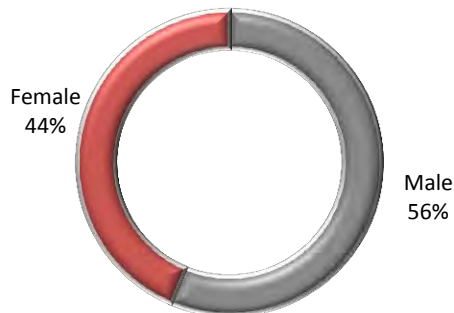
Headcount



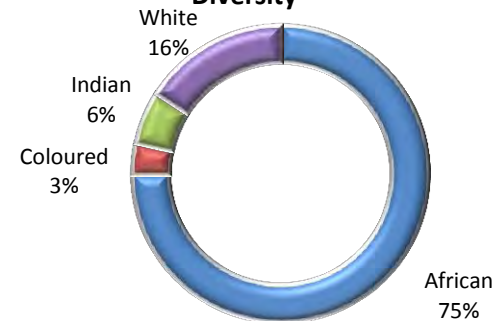
Training spend



Gender profile

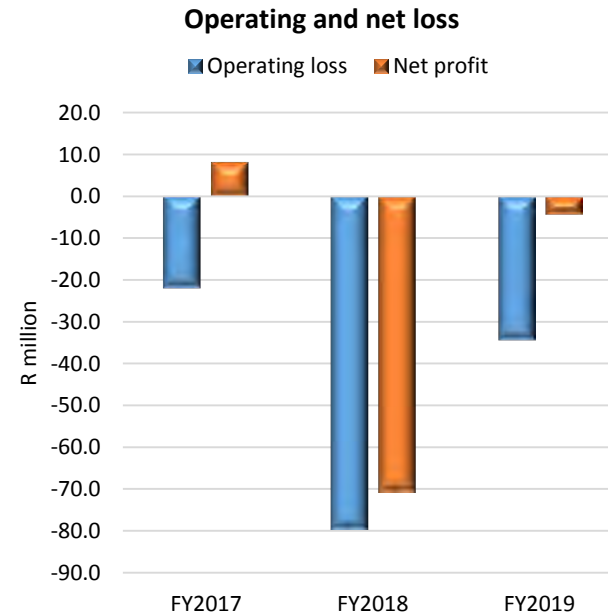
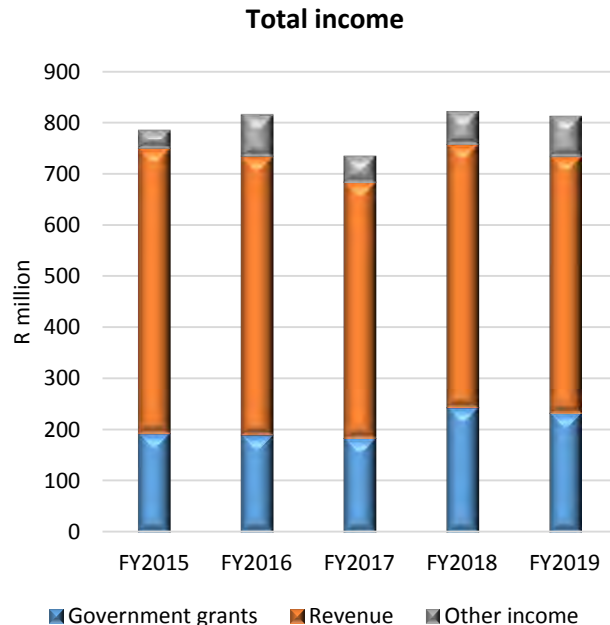


Diversity

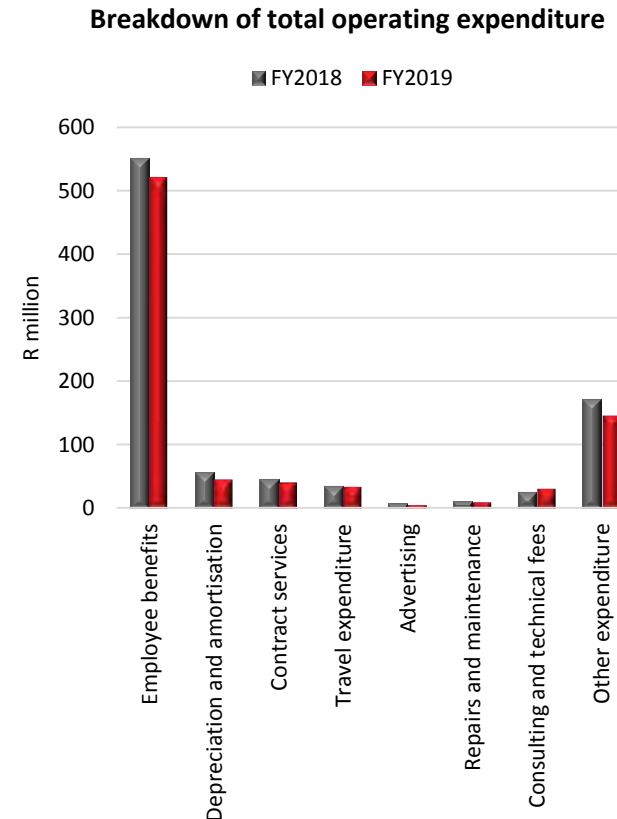
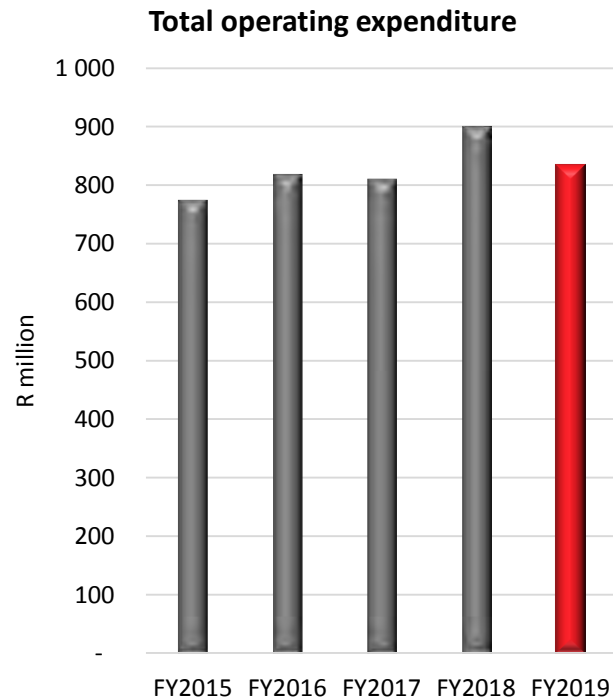


IMPROVED FINANCIAL PERFORMANCE

- **Total income** for the year was marginally down by 1.0% to R813.3 million (FY2018: R821.8 million).
- The **parliamentary government grant** funding allocation of R232.5 million decreased by R10.7 million from the previous year's allocation of R243.2 million.
- **Revenue from conformity assessments services**, comprising of certification, laboratory services and training, declined by R9.5 million to R473.6 million (FY2018: R483.4 million)
- **Other income**, including, amongst others, income earned from local content verification, dosimeters, management fees and rental amounted to R79.6 million (FY2018: 64.3 million)
- **Operating loss**, before interest income, reduced by 57% to R34.4 million (FY2018: R79.5 million)
- **Net loss** of R4.4 million (FY2018: R70.7 million)

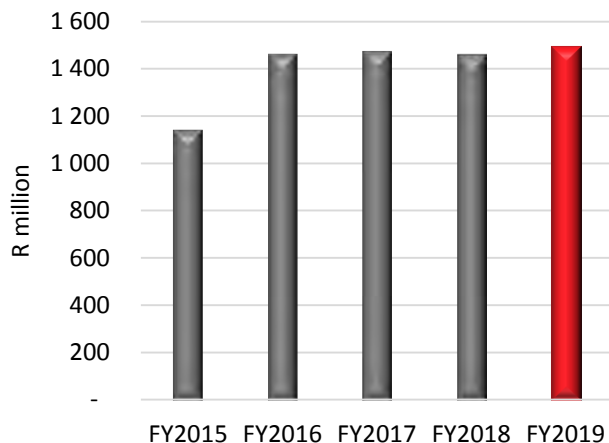


- **Total expenditure** (including depreciation and amortisation), declined by 5.9% to R847.8 million (FY2018: R901.3 million).
- Since FY2015, total operating expenditure has **increased by 2.3% on an annual compound basis**, well below the prevailing inflation rate over the period.

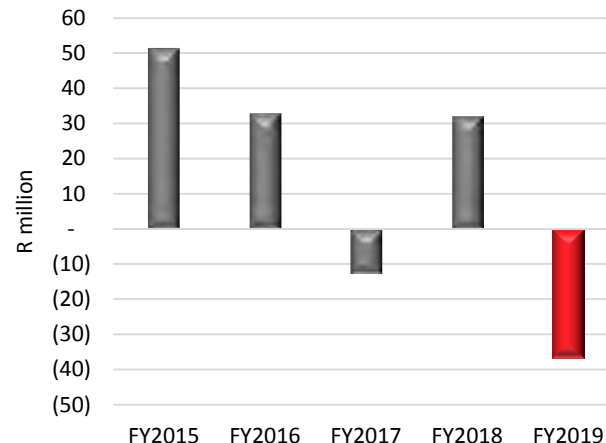


- **Total assets grew by 2.7% to R1.50 billion** (FY2018: R1.46 billion). Non-current assets were down by 12.7% to R1.03 billion from R1.18 billion in FY2018.
- **Capital expenditure**, including intangible assets, for the year **were R24.7 million** (FY2018: R24.9 million). Investments into new laboratory equipment and ICT equipment were in line with the renewal strategy of the Group.
- **Current assets increased** from R279.3 million in the prior year to R462.9 million, mainly as a result of increase in trade receivables (up R50.1 million) and cash and cash equivalents (up R133.2 million due to the disposal of financial assets).
- **Current liabilities increased** by 17.9% to R297.0 million, mainly as a result of an increase in deferred income of R94.8 million and partly offset by a reduction in provisions of R46.1 million.
- **Cash flow utilised in operations totalled R36.7 million** (FY2018: R32.1 million generated). At year-end the SABS' cash and cash equivalents totalled R259.2 million (FY2018: R126 million)

Total assets



Cash flow from operating activities



- Improvement in the audit opinion from FY18 (Disclaimer) to FY19 (Qualified)
 - Significant work conducted in FY2019 to address the findings raised by the AG
- The qualifications received in FY2019 related to new matters identified in the following areas:
 - Technical Accounting
 - Assets – componentisation and useful lives of old assets (land; buildings and investment property) (Group and separate financial statements)
 - Completeness of revenue within the Laboratory services division (Group financial statements)
 - Split between the current revenue and income received in advance for subscription fees (Group and separate financial statements)
 - Expected credit losses relating to loans to group companies (separate financial statements)
 - Irregular expenditure – Lack of an appropriate system to identifying all irregular expenditure (Group and separate financial statements)
 - Compliance with legislation
 - Future financial commitment was issued without the authorisation of the Minister of Finance
 - Some goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive.
- Plans to address findings and close gaps in controls are in progress

FY2019: PERFORMANCE AGAINST AGREED OBJECTIVES

Strategic objectives	Output	Performance indicator	2018/19 Target	2018/19 Actual	Achievement
Growth Increase the use of standardisation services by broadening the geographical footprint as well as the scope of services offered	Increase in revenue from services	Revenue from services	R560.4 million	R501.3 million	Not achieved
	Increase in products / services offered	Number of new products / services offered	2	4	Target exceeded
Customer centricity Put the customer at the forefront of everything the SABS does	Improvement in stakeholder relations	% of deliverables completed as per the IPAP plan	≥80%	80%	Target achieved
		Number of sector-specific publications produced	4	8	Target exceeded
	SMME and entrepreneurship development	Number of SMMEs that received SABS services	75	51	Not achieved
Productivity Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy	Execution of strategies to improve the sustainability of the organisation	% of laboratories (BUs in the Testing division) that are profitable	≥70%	52%	Not achieved
	Optimisation of the property assets of the SABS	Allocation of income generated from property to fund testing infrastructure	R5.0 million	R5.3 million	Target exceeded
Competent and empowered employees Develop and retain a competent human resource that is aligned with the mandate of the organisation	Development of technical expertise	Number of technical employees that have completed specialist training with leading partners	10	16	Target exceeded
		Number of doctoral and master's graduates recruited or developed to support testing and standards development	2	2	Target achieved

FY2020: QUARTER 1 PERFORMANCE OVERVIEW

Vision

To be the trusted standardisation and quality assurance service provider of choice

Mission

The SABS provides standards and conformity assessment services to contribute towards the efficient functioning of the economy

Strategic objectives

Develop, promote and increase the use of standards

Maintaining and promoting standards forms a critical part of the effort to secure socio-economic development, national industrialisation, and open up regional trade opportunities and economic integration to the growing and evolving South African economy

Provide integrated conformity assessment service solutions

Provide conformity assessment solutions across value-chains and be the partner of choice in these service offerings

Achieve and maintain financial sustainability

Overall, maintain financial sustainability to support long-term growth

Continuous improvement in internal systems and process

To improve operational efficiencies and maintain a stable operating platform

Creating and maintaining a high-performance culture

Employees are SABS' most valuable resource and the SABS is committed to attracting, developing, retaining, and rewarding the best people

Strategic objectives and key performance metrics refined

Progress against quarterly milestones (Q1 2019/20)

Objective 1: Develop, promote and increase the use of standards						
Output	Performance measure or Indicator	2019/20 Annual target	1 st Quarter YTD target	Actual achievement	Reason for variance	Corrective action
Standards development						
Alignment of the standardisation programme to industrialisation programme and Industrial sectors	% deliverables completed as per the IPAP Plan	80%	80%	0%	SANS 17, planned for publishing in quarter 1, delayed as it was referred back to the working group committee for additional work	It is anticipated that SANS 17 will be finalised in quarter 2. SANS 30500, originally due in quarter 4, has been completed ahead of schedule
Reduce the number of days to publish a standard	Average number of days to publish a standard	400 days	400 days	443 days	Turnaround days impacted by the finalisation of a long outstanding project. Excluding this project, the turnaround days reduces to 340 days	The days to publication is managed on an ongoing basis. Long outstanding projects are part and parcel of the standards development process and in many instances, not under the control of the SABS
Economic participation						
SMME and entrepreneurship development	Number of SMMEs and black industrialists that received design, innovation and conformity assessment services	80	20	1	<ul style="list-style-type: none"> Support to SMME has been lower than expected The review of the operating model of the Design Institute impacted on the number of SMMEs being supported 	<ul style="list-style-type: none"> An increase in the number of SMMEs supported is anticipated upon finalisation of the DAFF MOU The SABS is awaiting compliance documents from three SMMEs supported during quarter 1. On receipt will be recognised.
Supporting the economic participation of designated group	% of women supported	50%	50%	44.6%	The review of the operating model of the Design Institute led to no innovators being supported in the quarter	Support to designated group (internal and external) is monitored on an ongoing basis.

Progress against quarterly milestones (Q1 2019/20)

Objective 2: Provide integrated conformity assessment service solutions

Output	Performance measure or indicator	2019/20 Annual target	1 st Quarter YTD target	Actual achievement	Reason for variance	Corrective action
Improvement in overall customer satisfaction with SABS services	Customer satisfaction rate	75%	75%	71%	Overall customer satisfaction survey impacted by and unfavourable feedback from the Laboratory services division (58.2% satisfaction). All other divisions achieved in excess of 77%)	Improving customer satisfaction and attracting and retaining customers is an ongoing focus area and a key element of the turnaround plan. See par 2 above for feedback on key initiatives. These are anticipated to yield significant impact only over time.
Attract and retain customers	Increase in number of active customer	Maintain prior year level (FY2019: 8 298)	Maintain prior year level	Not maintained (FY2020 Q1: 8 099)	SABS continuous to be impacted by legacy operational challenges	

Objective 3: Achieve and maintain financial sustainability

Output	Performance measure or indicator	2019/20 Annual target	1 st Quarter YTD target	Actual achievement	Reason for variance	Corrective action
Increase group revenue from services	Group revenue generated	R614 million	R137 million	R94.3 million	<ul style="list-style-type: none"> Lower than expected demand in certain areas Testing services impacted by a lack of consistent laboratory conditions 	Various revenue generating initiatives are underway. Refer to the respective operational report (section 3) for more detail
Maintain financial sustainability of SABS Group	Net profit of SABS Group	Loss of R66 million	Loss of R17 million	Loss of R7.5 million	Not applicable	Not applicable

Progress against quarterly milestones (Q1 2019/20)

Objective 4: Continuous development of employee skills to improve competency levels						
Output	Performance measure or indicator	2019/20 Annual target	1 st Quarter YTD milestone	Actual achievement	Reason for variance	Corrective action
Improve turnaround times in testing division	% achievement of contracted delivery times met	80%	80%	71%	Lack of appropriate reporting system to monitor turnaround times at a job level	Turnaround times will be monitored by senior management on an ongoing basis including operational planning and job monitoring
Improve cost-to-income ratio of SABS Group	Cost-to-income ratio of SABS Group	111%	111%	117%	Cost-to -income ratio impacted by lower than expected revenue generated	Revenue improvement is managed on an ongoing basis.
Maintain relevant accreditation	Maintain relevant accreditation	Maintain	Maintain	Maintained	Not applicable	Not applicable

Objective 5: Creating and maintaining a high performance culture						
Output	Performance measure or indicator	2019/20 Annual target	1 st Quarter YTD milestone	Actual achievement	Reason for variance	Corrective action
Continuous development of employee skills to improve competency levels	Total training spend as a percentage of the salary bill	60%	60%	8%	Quarter 1 is historically a slow period to the	Personal development plans for employee have been put in place. Effort is being made to increase participation rate in training interventions in forthcoming quarter
Improve employee engagement	Employee engagement rate	Rating of 3	Not yet due	Not yet due	Not applicable	The employee engagement survey is scheduled to occur in quarter 3



THANK YOU!