SABS

SABS 75 ANNIVERSARY CELEBRATION

INTEGRATED ANNUAL REPORT 2019/20

THE SABS APPROACH TO INTEGRATED REPORTING

The SABS is committed to the principles of integrated reporting as it aligns to the SABS' thinking and approach to long-term value creation and the role the SABS plays as a leading standards development, testing, certification and training organisation. The report aims to provide the SABS' stakeholders with a concise, material, transparent and understandable assessment of its governance, strategy, performance and prospects.

Scope and boundary of reporting

Reporting period

The SABS is pleased to present its 2019/20 Integrated Annual Report (IAR). It is the SABS' principal communication to stakeholders and published once a year. This report covers the period 1 April 2019 to 31 March 2020 (FY2020) and reflects on the activities of the SABS and SABS Commercial SOC Limited. Any material events after this date and up to approval by the Accounting Authority in July 2020 have also been included. The report also contains the Group's outlook, targets and objectives over the short-, medium- and long-term.

Financial and non-financial reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with key stakeholders that have a significant influence on the ability to create value.

Targeted readers

The SABS IAR is the primary report to the provider of financial capital to the institution, being the government of the Republic of South Africa. It also provides information relevant to other key stakeholders, including the SABS' clients, staff, government departments and institutions, regulators and the broader public.

Regulatory reporting requirements

The content of this report is aligned with the requirements of the International Integrated Reporting Framework (<IR> Framework) and, where appropriate, the King Code of Governance Principles for SA (King IV). As a Schedule 3B state-owned entity, it also aligns to the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The Annual Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the requirements of the PFMA.

Integrated thinking and materiality

The SABS value creation story (see pages 5 to 6) is structured to reflect the relationship between the various elements involved in achieving its legislative mandate. By analysing the risks and opportunities identified in the operating context, stakeholder engagement process and internally identified risks and opportunities, the focus is on matters that are most important to the SABS' value creation in the short-, medium- and long-term. These are utilised as points of reference to ensure the report covers those matters that have a bearing upon and could have a substantial effect on the ability of the SABS to deliver stakeholder value.

Combined assurance

The SABS applies a combined assurance model to provide assurance obtained from management and from internal and external assurance service providers. The Auditor-General of South Africa audited the consolidated annual financial statements for the 2019/20 financial year.

The SABS' financial, operating, compliance and risk management controls are assessed by the company management team, reviewed by internal audit on a risk assessed basis and the process is overseen by the Audit and Risk Committee.

Forward-looking information

This report contains certain forward-looking statements with respect to the SABS' financial conditions, results, operations and businesses. These statements and forecasts involve risks and uncertainty as they relate to events and depend on circumstances that occur in the future. Various factors could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Responsibility of the Accounting Authority

The Accounting Authority, supported by the Audit and Risk Committee, has taken overall responsibility and accountability for this report. Executive management, assisted by a dedicated reporting team, was responsible for the preparation and consolidation of this report. The Accounting Authority has collectively reviewed this report and confirms the integrity of the content therein and believes that this report is a balanced and appropriate presentation of the profile and performance of the SABS.

On recommendation from the Audit and Risk Committee, the Accounting Authority approved this report on 31 July 2020.

For and on behalf of the Accounting Authority

Jodi Scholtz
Lead-administrator

Tshenge Demana
Co-administrator


SABS
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HOW TO NAVIGATE OUR REPORT
Throughout the integrated annual report, the following icons are used to show the connectivity between sections:

CAPITALS

- Financial
- Human
- Intellectual
- Manufacturing
- Natural
- Social and relationship

Indicates a page or note reference of information which can be found elsewhere in the report.

STRATEGIC OBJECTIVES

- Develop, promote and increase the use of standards
- Provide integrated conformity assessment service solutions
- Achieve and maintain financial sustainability
- Continuous improvement in internal systems and process
- Creating and maintaining a high-performance culture

Feedback
The SABS is committed to effecting further improvements to this report and would appreciate any constructive feedback. Comments can be directed to the General Manager: Corporate Strategy, Mr Nils Flaatten at info@sabs.co.za, or submitted at 1 Dr Lategan Road, Groenkloof, Pretoria, 0001.

PERFORMANCE OVERVIEW

Maintaining **7 440** national standards

Published 241 new standards of which **96** publications are home-grown

Maintained accreditation from SANAS and RvA

7420 customers

R40.8 million invested in capital expenditure which include buildings and laboratory equipment

Net Loss of R61.6 m

Turnaround plan approved and **implementation** ongoing

Supported **47 SMMEs**

Invested R4.1 million on staff training

Operating loss of R110.2 m

LTIFR reduced to 0.0 per 200 000 hours worked

MINISTER'S FOREWORD

This Annual Report provides an account of the South African Bureau of Standards (SABS) for the past financial year ending March 2020. Its work is crucial to many firms in the economy and to provide quality-assurance for then end- users of products.

The sixth government administration took office following the national elections in May 2019, with a re-imagined industrial strategy for the country focused on localisation and a renewed promise, passion and urgency to address long standing socio-economic challenges.

The 2019 Presidential Investment Conference, held in November 2019 demonstrated sustained commitment and productive partnerships between the public and private sector in rebuilding the economy. Some R364 billions of further commitments were made (21% higher than at the inaugural Conference the previous year), with potential to create over 400 000 jobs over a five year period. This brings the total of investment commitments made at the two Conferences (2018 and 2019) to R664 billion, more than 50% of the five-year target set by the President in 2018.

The new **dtic** family accelerated the development and implementation of sector masterplans, completing these 'industry social pacts' in the automotive, poultry, sugar and clothing and textile sectors. These serve as a blueprint to harness energies amongst industry players for investment and increased output and jobs in sectors which together employ some 500 000 people. The Master Plans set out practical and reciprocal actions that each social partner at industry level would take to build more resilient businesses and industries. We are now working on sector masterplans in the steel and furniture sectors, which we expect to complete in the coming year.

Significant progress was made with the finalisation of the modalities of the new African Continental Free Trade Area (AfCFTA), and with a trade agreement to address access to the United Kingdom in the event of a no-deal Brexit.

The economic environment brought on by Covid-19 has dented growth both locally and globally. The pandemic and its economic fallout have been described by leading economists as unprecedented in our generation. Across the world, countries are reporting or forecasting their lowest growth in at least a generation.

For public entities, the pandemic principally impacted on their work beyond the financial year, placing pressure on delivery platforms and in a number of cases, on their finances.

To repair the damage of Covid-19 and reconstruct the economy to create more jobs, bring more young people into entrepreneurship and increase economic inclusion, we need to think boldly and implement smartly.

To address the immediate and urgent challenges of the economy, government and its social partners have agreed to an Economic Reconstruction and Recovery Plan. The Plan includes structural reforms and a commitment to greater levels of localisation and infrastructure investment. These measures will impact and shape the work of **the dtic** and its agencies.

Every agency of **the dtic** will be required to play its role in ensuring a steady recovery from the pandemic, and to continue execution of the re-imagined industrial strategy, outlined by President Ramaphosa at the start of this administration.

During the FY2019/20 period, the SABS maintained 7,440 national standards (SANS), it published 241 new standards of which 96 of these were home-grown (or developed in South Africa) and it maintained its accreditation to perform conformity services by the SANAS and RvA (Raad voor Accreditatie), the Dutch accreditation body.

The Bureau spent R40.8 million on capital expenditure which included upgrades to its buildings and laboratory equipment. However, the SABS generated an operating loss of R110.2 million and a net loss of R61.6 million. This last year has been a challenging one for the SABS especially after they were placed under administration. The Co-Administrators have had to implement a turnaround programme under trying economic conditions and the uncertainty created by the Covid-19 pandemic.

In the FY 2020/21 the SABS will be required to play a role in improving national competitiveness by providing support to **the dtic** and South African enterprises. This will be achieved through the development of applicable and relevant national standards and the provision of globally recognised conformity assessment services.

In conclusion, I would like acknowledge the work done by the Co-Administrators and the SABS staff as well as the Executive Committee, Audit and Risk Committee and the Social and Ethics Committee, in their efforts to stabilise the Bureau and set it on a new trajectory.

Mr Ebrahim Patel
Minister of Trade, Industry and Competition

ABOUT SABS

BUSINESS OVERVIEW

THE MANDATE OF THE SABS

The SABS is the apex national standardisation institution in South Africa, established by the Standards Act, 1945 (Act No. 24 of 1945), and continues to exist under the Standards Act, 2008 (Act No. 8 of 2008). The SABS is a Schedule 3B public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The objectives of the SABS are:

- **Develop, promote and maintain** South African National Standards (SANS)
- **Promote quality** in connection to commodities, products and services
- **Render conformity assessment services** and matters connected therewith

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

IN ORDER TO ACHIEVE ITS VISION, THE SABS AIMS TO

STRATEGY

- Increase the use of standardisation services by broadening the scope and reach of services offered
- Put the customer at the forefront of everything the SABS does
- Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy
- Develop and retain competent human resources that are aligned with the mandate of the organisation

The implementation of the strategy is supported by a set of values

VALUES

- Impartiality
- Innovation
- Accountability
- Integrity
- Quality
- Customer centricity

BRANDS	MEMBERSHIPS	ACCREDITATION OF SABS COMMERCIAL SOC	WORLD ASSOCIATION OF CA BODIES
SABS APPROVED; SABS ISO 9001; SABS ISO 14001; SABS ISO 45001; FSSC 22000	ISO; IEC; PASC; ARSO; AFSEC	sanas South African National Accreditation System	IAF

SABS FUNDING MODEL

The SABS is funded through:

- Annual grant transfer from the fiscus
- Revenue generated from conformity assessment services

These funds are used to:

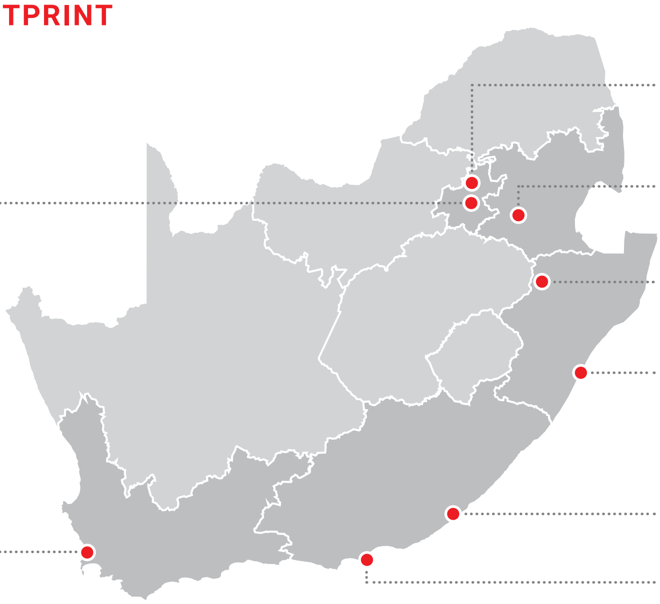
- Support standards development and promotion activities as well as subsidise certain verification services such as local content verification as well as investment in infrastructure
- Provide conformity assessment services on commercial terms and earn revenue from clients

THE SABS' VALUE OFFERING TO BROADER SOCIETY, INDUSTRY AND SOUTH AFRICA

WHAT THE SABS DOES	BENEFIT TO SOCIETY	BENEFIT TO LOCAL INDUSTRY	BENEFIT TO SOUTH AFRICA
Development of national standards for processes, systems, services and products	Support inclusive growth	Fair and transparent process to determine standards and conformance	• Linkages to internal markets through standards and conformity assessments • Support for socio-economic development policies • Fair competition
Test, inspect, verify and certify processes, products and services against requirements in the standards	• Quality assurance for consumers • Fairness in the market	Enable producers and suppliers to compete fairly	• Protect local employment • Enable local production • Fair competition • Safety to consumers
Promote the use of standards, design and innovation as a catalyst to socio-economic development	Facilitation of new and better processes, products and services by improving access to SMMEs	Provide a platform for support to access services by SMMEs	• Increase production of intellectual capital • Improve speed to market • Faciliate new entrants to the market
Provide training on standards and conformity related assessment services	Correct implementation and use of standards	Ensure compliance to standards proficiency in quality management	Fair trade environment where standards are consistently applied in the procurement of products and services

INCLUSIVE ECONOMIC GROWTH

NATIONAL FOOTPRINT



VALUE-CREATING BUSINESS MODEL

At the heart of the SABS' value creation business model is the desire to support inclusive growth

The SABS relies on various relationships and resources, also referred to as the six capitals, to create value. The inputs are required to deliver the strategy and generate value for all stakeholders. The SABS carefully considers the trade-offs between the capitals, aiming to maximise positive outputs and outcomes, and limit any negative impacts.

The SABS relies on various relationships and resources to create value (Inputs)

1 HUMAN CAPITAL

Employees play a critical role in attaining the SABS' vision, delivering the strategy and living the core values. A vital part of this journey is to focus on aligning individual and organisational priorities by developing passionate, enabled and engaged people.

- Total number of employees: 856
- Investment in training and staff welfare: R4.1 million

2 MANUFACTURING CAPITAL

Standards development, certification, testing and training occur at locations across South Africa. The SABS continues to invest in upgrading of premises and equipment.

- Head office in Pretoria with seven regional offices across the country
- 28 test laboratories spread across 9 locations
- Net book value of property plant and equipment: R686.3 million

3 INTELLECTUAL CAPITAL

Access to strong technical knowledge, capabilities and technology is imperative to fulfil the SABS mandate. Through accreditation to various international and national accreditation bodies, the SABS received its "licence to operate".

- 32 Standards development professionals
- 125 Certification auditors
- 135 Test officers
- Accredited to international body (RvA) and one national body (SANAS)

4 NATURAL CAPITAL

SABS requires energy, water, air and fuels in performing its daily activities.

- Electricity consumed: 43.4MWh
- Water consumption: 189 324 kilolitres
- Fuel consumed: 961 350 litres

5 FINANCIAL CAPITAL

Comprise grant funding received from the South African government to fund certain activities as well as funds generated from conformity assessment services. These funds are used to run the business and to finance both expansion and replacement of plant and equipment.

- R270.0 million (in line with note 19 of audited financials remaining of grant received from the government of South Africa for infrastructure)
- Capital and reserves: R831.2 million
- Cash and cash equivalents: R531.9 million

6 SOCIAL AND RELATIONSHIP CAPITAL

Trusted relationships and a positive reputation with the shareholder, clients, regulators, suppliers and communities is core to our ability to realise our vision.

Established in 1945, the SABS has built a strong brand as the premier standards development and conformity assessment service provider in southern Africa

Providing services across the standards development and services value chain

STANDARDS DEVELOPMENT	TRAINING	ADVISORY	CERTIFICATION	TESTING
• Facilitating the end-to-end standards development process	• Training on standards • Technical support to SMMEs and entrepreneurs on standardisation services	• Technical support to SMMEs and entrepreneurs on standardisation services	• System certification • SABS Mark scheme – Product certification • Conducts local content verification • Consignment inspections	• Testing of products in line with international protocols for laboratories such as ISO/IEC • Proficiency schemes

Key sectors supported (across value chain)

Accessibility	Chromatography	Environment (EMS)	Medical and fluids	Rotating machinery
Acoustics	Civil engineering	Explosion prevention	Medical and health	Rubber and plastics
Adhesive and packaging	Clothing and protective wear	Fibre and polymers	Mining and minerals	Safety and security
Agrochemicals	Electro-technical	Food and beverages	Paints and sealants	Solar water heating
Automotive	Electronic appliances	ICT	Petrochemical	Textiles and leather
Buiding and construction	Energy efficiency	Industrial chemistry	Pharmaceutical	Timber
Chemicals	Engineering	Lighting technology	Radiation protection	Transportation

Creating value for SABS Stakeholders

SHAREHOLDER (the dtic)

- 5 of 9 standardisation projects completed as part of IPAP commitment project, 2 projects were cancelled through a resolution by the technical committee and 2 were published in April 2020
- Operating loss increased to R110.2 million and net loss to R61.6 million
- R26.8 million cash generated from operating activities
- 47 SMMEs benefited from design and conformity assessment support

EMPLOYEES

- R552.5 million paid in salaries and benefits
- 469 employees participated In training interventions
- 72 employees completed specialist training with leading partners
- Study bursaries of R0.98 million awarded
- 85% employee representation from historically disadvantaged groups
- 44% of staff complement are women
- Lost time injury frequency rate reduced to 0.0 from 0.36 in FY2019

CLIENTS AND INDUSTRY ASSOCIATIONS

- 241 standards published of which 98 were home grown
- Average turnaround time on standards developed is 412 days
- Supported 7,400 clients
- R40.8 million invested in capital expenditure which include buildings and laboratory equipment

GOVERNMENT AND REGULATORS

- Compliance with all regulatory requirements
- Provision of conformity assessment services in support of regulatory objectives

INTERNATIONAL AND REGIONAL STANDARDS BODIES

- Adopted 145 new international standards
- Participation at various international and African standards forums
- IEC Council Board member
- ISO/CASCO chairman

SOCIETY

- Purchased goods or services to the value of R64.4 million from EMEs and QSEs
- Disposed of 72.9 tonnes and incinerated 51.6 tonnes of hazardous waste
- Recycled 21 tonnes of non-hazardous material

LEAD ADMINISTRATOR'S FOREWORD

The SABS has been exposed to tough trading conditions during the FY2020, with markets that were characterised by low economic growth, disruptions to traditional trade flows and a general weakening of domestic economic activity. Needless to say, this has negatively impacted the SABS customer base and added to the complexity of driving the turnaround strategy at an organisation which has been placed under administration.

The onset of the Covid-19 pandemic, at the end of the financial year, served to challenge the Bureau even further and witnessed a rapid deployment of the SABS business continuity management plans (BCM) as we were required to manage the SABS through what can only be described as a 'black swan' event. In tandem with the requirements of keeping our staff members and customers safe from infection, the SABS was also required to contribute to the national effort of sourcing and producing all personnel protective and medical equipment such as hand sanitisers, disinfectants, masks, goggles, face shields, gloves, aprons and body bags. The value of conformity assessment or voluntary testing has proved itself to be a critical tool in these trying times.

The task of compiling and executing the turnaround plan fell upon the co-administrators. In the previous financial year we focused on a combination of various short-term interventions to stabilize the business and for this period under review we focused on implementing medium- and long-term interventions to 'fix' the SABS and to chart a new course for the Bureau.

Our major interventions were to: implement and approve a new operating model for the certification division, to train and certify our auditors to deliver Local Content Verification (LCV) services, to define the end-to-end process in certification and standardise operational processes across the division. In the Laboratory Services Division (LSD) we refurbished four additional laboratories namely; the materials and installation at NETFA, the fibre and polymers, electricity meters and lighting laboratories bringing the total refurbished laboratories to six.

Regeneration work was undertaken on the aging and centralised plant room which supplies the laboratories on the Groenkloof campus with heating, ventilation and air conditioning (HVAC). We have accelerated the implementation of a single Laboratory Information Management System (LIMS) across the more than 33 laboratories at the SABS which has helped improve sample management and productivity.

In the standards development area the SABS has sustained the programme of work for the technical committees and under the Covid-19 lockdown period meetings were conducted remotely. Operational improvements have been introduced to reduce the lead time for developing new standards and this division has been charged with developing the SABS' efforts to support the African Continental Free Trade Area (AfCFTA).

In the support areas we have addressed and resolved all of the multi-year open audit findings, approved and introduced revised pricing strategies, in the executive team all vacancies were filled and all divisional job profiles have been reviewed and completed and finally, a new performance management system was rolled-out. These endeavours will create the basis of the new organisational design.

With regards to corporate governance the process of appointing a Board of Directors has been initiated by the Executive Authority and advertisements for a Chief Executive Officer have closed. Needless to say these processes are subject to Ministerial and Cabinet approval.

The co-administrators realise that never before has the requirement for a national standards body been more necessary for the country. The following financial year is fraught with many challenges as we continue to chart the new course for the SABS.

In closing, we would like to express our gratitude to Minister Patel, Deputy Ministers Gina and Majola and Director-General October for their support and guidance. The Portfolio Committee on Trade and Industry have assisted in fixing the business due to their oversight. Additionally, our work has been assisted by unwavering assistance from the non-executive members of the Audit and Risk Committee, the Executive Management team and all staff members of the SABS. Finally, we would like to thank the loyal and supportive customers of the Bureau.

Ms Jodi Scholtz
Lead Administrator

SABS LEADERSHIP

Executive management [1 2]

Jodi Scholtz (47)
Lead Administrator

Date appointed as lead administrator:
6 February 2020

Date appointed to the SABS:
July 2018

Qualification: MBA, B Comm (Hons), B A Arts & Post graduate Diploma: Trade Policy

Tina Maharaj (39)
Chief Financial Officer

Date appointed as executive:
15 October 2018 (Acting CFO from 28 May 2018 to 14 October 2018)

Date appointed to the SABS:
1 September 2017

Qualification: CA(SA), MBA & MCom (Tax)

Katima Temba (41)
Executive: Certification Services (Acting)

Date appointed as acting executive: 1 March 2020

Date appointed to the SABS:
10 February 2014

Qualification: MBA, B.Tech: Electrical Engineering & Diploma: Electrical Engineering: Electronics

Lungelo Ntobongwana (42)
Executive: Laboratory Services (Acting)

Date appointed as acting executive: 19 November 2019

Date appointed to the SABS:
01 August 2017

Qualification: MBA, MCom (Business management), BTech (Project management) & Diploma: Analytical Chemistry

Sadhvir Bissoon (47)
Executive: Standards

Date appointed as executive:
1 August 2011

Date appointed to the SABS:
1 August 2003

Qualification: D-Tech (Biotechnology), MSc (Biotechnology), BSc Hons

Lizo Makele (50)
Executive: Human Capital

Date appointed as executive:
1 July 2018

Date appointed to SABS:
1 July 2018

Qualification: MBA, BTech (HR Management), MDP

1. As at 31 March 2020
2. A list of directorships is available from the Acting Company Secretary

OPERATING CONTEXT

The operational environment of the SABS is influenced by a wide range of factors, with the most significant set out below.

Legislative and policy mandate

The SABS is an entity operating under **the dtic** which has its own statute and is subject to national government's policy mandate. Global economic integration, increased consumer awareness of quality, safety and health risks and intensifying environmental concerns are putting pressure on all countries to ensure that they have a sound technical infrastructure framework, otherwise known as the technical infrastructure institutions (TI), that complies to global standards. The term TI refers to all fields of standardisation, testing, metrology, accreditation, certification and conformity assessment.

In a rapidly changing business and industrial environment it is crucial for the domestic South African economy to stay abreast of the latest global developments in technology and innovation, trade and the regulatory environment. Participation in technical infrastructure activities, from both a technical and strategic perspective, affords firms, technical experts, industry associations, regulators and economic actors in general to stay abreast of the dynamics of a rapidly changing world, particularly in the context of the digital or fourth industrial revolution.

The role of a well-functioning technical infrastructure system is a critical component of the international trading system. This is evidenced by the World Trade Organisation's (WTO) acknowledgment that such a system could, by basing its norms and standards on those developed by international standards, metrology, legal metrology and accreditation bodies, facilitates the reduction of technical barriers-to-trade and unfair trade practices amongst trading partners. The SABS is the national point of entry for the WTO Technical Barriers to Trade (TBT) system.

The international trading system requires that exporting countries, South Africa included, keep up to date with fast changing trade measures and regulations. In order to take advantage of export opportunities, a solid technical infrastructure system is an absolute requirement, one which is on par with global best practice and which is able to secure ongoing market access and entry into global value chains.

In the domestic market, meeting technical requirements is increasingly important and ensures that products and services are competitive and do not pose a health and safety risk to consumers and the environment. This internationally accepted system serves as a tool for conformity assessment to mitigate the risk of exclusion of products and services destined for both the local and the export markets.

In South Africa, technical infrastructure or quality infrastructure is based on a network of closely related and interlinked entities - the South African National Accreditation System (SANAS), the National Regulator for Compulsory Specifications (NRCS), the South African Bureau of Standards (SABS) and the National Metrology Institute of South Africa (NMISA). From an over-arching policy perspective, the technical infrastructure entities in South Africa must support re-industrialisation, technology-intensive and sustainable environmental production. The SABS has an important mandate to provide standardisation, voluntary conformity assessment and local content verification services to enable the achievement of the industrial, economic and developmental objectives of the country.

Implications for the SABS

It is imperative that the SABS is aligned with and proactively supports all levels of government and regulators, in a close collaborative effort with the private sector, in the complex task of the re-industrialisation and the national effort to overcome the deep-seated structural problems which characterise the economy.

Such a scaled up effort requires a coherent and well managed turnaround strategy for the institution to ensure that it achieves a greater level of financial sustainability; a cost effective and efficient delivery of services across the conformity assessment and standards spectrum and higher levels of investment in infrastructure and equipment to enable the SABS to deliver on its mandate in a close collaborative relationship with all its stakeholders in the public and private sector.

Strategic response

- Develop, promote and increase the use of standards
- Provide integrated conformity assessment service solutions
- Continuous improvement in internal systems and process

Economic outlook

According to the South African Reserve Bank's June 2020 Quarterly Bulletin, contraction in South Africa's real gross domestic product (GDP) was at an annualised rate of 2.0% in the first quarter of 2020 which extended the economic recession into its third quarter. The nationwide lockdown, from 27 March 2020, to curb the spread of the coronavirus disease 2019 (Covid-19) is expected to severely affect economic activity in the second quarter.

The real output of the primary sector declined further and was driven by a sharp contraction in mining output, which was impacted by electricity load shedding and supply-chain disruptions as well as lower global demand as the Covid-19 pandemic impacted export markets. By contrast, the real gross value added (GVA) by the agricultural sector expanded markedly in the first quarter of 2020, following four consecutive quarterly contractions.

The real output of the secondary sector contracted for a third successive quarter. Economic activity declined in most manufacturing subsectors in the first quarter of 2020, as both global and domestic demand conditions deteriorated. Real construction activity contracted for a seventh successive quarter, suppressed by persistent low business confidence, policy uncertainty and the recessionary conditions.

Real gross domestic expenditure (GDE) declined for a third successive quarter in the first quarter of 2020, preliminary non-financial public sector borrowing requirement increased to R250 billion in fiscal 2019/20 as the deficit of consolidated general government almost doubled which was due to continued revenue shortfalls following weaker than expected domestic economic activity. The total gross loan debt of national government is now expected to increase sharply to 81.8% of GDP in the current fiscal year.

Government tabled a special supplementary budget in response to the expected impact of Covid-19 on public finances and government expects the budget deficit as a ratio of GDP to rise to 14.6% in fiscal 2020/21 compared with 6.8% in the original 2020 Budget Review.

Implications for the SABS

The weak economic outlook for South Africa means poor growth expectations in key sectors that utilise the SABS' conformity assessment services such as mining, construction and manufacturing. Many businesses are struggling to stave off the impacts of Covid-19 and business liquidations are expected to rise. This will have an adverse impact on the organisation's revenue. The weak economic conditions and a more competitive conformity assessment market environment with foreign competitors aggressively targeting the South African market, means the organisation is confronted with a very challenging business environment. Increasingly, the SABS must focus on promoting and increasing awareness of standardisation amongst decision makers across the economy. The government grant that the SABS receives has been reduced even further, which means that the SABS must rethink and reposition itself to remain commercially viable. For this reason, the organisation is engaging extensively with its external stakeholders.

Strategic response

- Develop, promote and increase the use of standards
- Provide integrated conformity assessment service solutions

Competitive landscape

The conformity assessment industry is highly competitive and revenue opportunities and margins are increasingly constrained. The industry is dominated by a few big global conformity assessment bodies who provide a broad range of conformity assessment services. There has been an increase in the number of industry associations that are providing their own Mark Scheme thus challenging the traditional SABS Mark Schemes. In addition, there are also various small players who specialise in price competitive niche markets, offering specialised testing services.

Implications for the SABS

In order to continue to secure its place as the apex standards and conformity assessment institution in South Africa and maintain its relevance and competitiveness in the market, the SABS must also continuously invest in new equipment, systems and processes and strive to bring new mark schemes to market.

The SABS needs to be more aggressive in the defence of its Mark Scheme.

Strategic response

- Provide integrated conformity assessment service solutions
- Continuous improvement in internal systems and process
- Creating and maintaining a high-performance culture

OPERATING CONTEXT (continued)

Advancement in technology

Globalisation and quantum leaps in technology will increasingly bring about significant disruptive impacts to the global and domestic economy. Digitisation and data utilisation, including connectivity, e-commerce and the internet of things (IoT), to name a few, have already and will increasingly drive economic disruption. Disruption also flows from agile, innovative competitors who, through access to global digital platforms for research, development, marketing, sales, and distribution, can displace well established incumbents faster than ever, by improving the quality, speed or price at which value is delivered.

The onset of the Covid-19 pandemic has accelerated digital adoption rates, both in the public and private sectors. The demand for new management systems ensuring stability of digital systems, asset management and business continuity is expected to rise.

Major shifts on the demand side are also occurring, as growing transparency, consumer engagement, and new patterns of consumer behaviour emerge which are increasingly built upon access to mobile networks and e-commerce which is forcing companies to adapt the way they design, market and deliver products and services.

The SABS must embrace the enormous challenges of the digital industrial revolution. This requires that the SABS utilises new technology platforms and equipment to deliver seamless services more efficiently and effectively.

It also requires that the SABS adapts very rapidly to the enormous disruptive impacts and quantum leaps in technology in the economy with respect to design, high technology automation and production, products and systems that the digital industrial revolution has already and will increasingly bring about.

Digitising the SABS service offering will be a prerequisite for success in the coming financial years.

Strategic response

- Develop, promote and increase the use of standards
- Continuous improvement in internal systems and process
- Provide integrated conformity assessment service solutions

Environmental responsibility

Sustainable economic and industrial development is a key objective set out in a range of government policy framework documents and as a requirement for South Africa to meet its commitments to UN Climate Change Conference COP 25. This requires, amongst other considerations, a just transition to a less carbon intensive energy programme; policies and programmes to minimise environmental degradation including with respect to the use of water, measures to minimise air pollution as well as a wide range of waste management and recycling policies and systems across the industrial economy. Disruptive technologies and 'circular economies' in water recycling and sanitation; energy generation and efficiency; manufacturing processes; resource exploitation; transport and logistics; waste management and recycling and other factors - create enormous opportunities and pose certain risks.

Implications for the SABS

The SABS is a significant energy and water consumer and will continue to focus on putting mechanisms in place to reduce its consumption of energy and water. The organisation also generates substantial amounts of hazardous and non-hazardous waste as part of its activities and processes. To mitigate the risk to the environment and society, the SABS will continue to implement an effective waste management programme to ensure that waste is collected, separated, stored, transported, recycled and/or disposed of, using environmentally responsible and legally compliant methods.

As a technical infrastructure institution, the SABS must play a key role, in developing standards that have a positive impact in the environment, and facilitate the exclusion of non-compliant and unsafe products from the economy.

Strategic response

- Continuous improvement in internal systems and process
- Develop, promote and increase the use of standards

Increase in regulatory compliance

In the global and domestic market, companies operate in a more challenging environment with increased geo-political and trading environment uncertainty. However, the dominant challenge for business is to meet the new standards introduced by regulators to reduce and contain the spread of pandemics. Regulations relating to personal protective equipment (PPE), occupational health and safety, environmental protection, data privacy and localisation continue to evolve, contributing to increased obligations and costs for all organisations. Non-conformity to the new regulations will result in businesses being closed by regulators.

Internally, failure to comply with these requirements could have an adverse financial, operational and new business impact on the SABS. An increase in infected staff will negatively impact operations.

Implications for the SABS

The regulatory environment continues to evolve. This exposes the SABS to various and greater risks but also provides opportunities for greater and more competitive service provision to clients. For example:

- Post Covid-19 workplace safety and environmental regulations will require companies to continuously invest in adequate PPE, safety and environmental safeguard infrastructure and technologies. Implementing standards are an effective mechanism for companies to implement best of class in various systems and processes. As a conformity assessment service provider, the SABS is well placed to support these enterprises.
- Evolving technology trends, including high internet usage and cloud computing have increased the need for connectivity and have subsequently magnified the importance of protecting information. Protecting the organisation's information from unauthorised disclosure, theft, loss, destruction and alteration is as important as protecting ICT infrastructure from virus and similar attacks. The regulatory framework in ICT is extensive and includes key legislation, amongst others, the Promotion of Access to Information Act No. 2 of 2002 (PAIA), the Electronic Communications and Transactions Act No. 25 of 2002 (ECTA) and the Regulation of Interception of Communications and Provision of Communication-related Information Act No. 70 of 2002 (POPI ACT).

Strategic response

- Provide integrated conformity assessment service solutions
- Continuous improvement in internal systems and process
- Achieve and maintain financial sustainability

ENGAGING WITH THE SABS' STAKEHOLDERS

The SABS is committed to transparent reporting in line with its duty to all material stakeholders. It therefore engages regularly with stakeholders to understand their perceptions, needs and concerns to determine future trends, possible risks, identify material issues and support the organisation's strategy development.

As the SABS fulfils a dual role of developing and maintaining national standards and providing conformity assessment services, engaging stakeholders is critical to the design and implementation of the SABS' strategy.

In prioritising material stakeholders, the SABS applies the following criteria:

- Stakeholders to whom the SABS provides national public good services and commercial services
- The degree to which it depends on the stakeholders' support in achieving the strategic goals
- The extent to which these stakeholders can impact on the organisational performance
- The relative importance of the stakeholder for the SABS as a whole, rather than for specific business functional areas
- The risk exposure for the SABS should its engagement with stakeholders be incomplete

The table below provides an overview of the material stakeholders, why they are important, their interest in the business and how the SABS engages with each group. The material matters raised during the financial year, how they impact value and how the SABS responded to them are explained on the following pages.

Stakeholder group	Why they are important	Their interest in the SABS business	How the SABS engages	Link to strategic objective(s)
Shareholder representative (**the dtic**)	• Alignment of government policy and organisational activities to national priorities. • Approval of the annual corporate plan • Assessment of resources necessary to deliver on the mandate and expected socio-economic impact • Source of grant funding to support various development activities	• Execution of the SABS' standards development role including industrialisation and the standards action plan • Long-term sustainability and financial performance • Effective application of grant funds • Promotion of standards in the wider African region • Reputation	• Produced a turnaround time of 412 days, reflected an improvement compared to the 497 days at 31 March 2019 (Industrial Competitiveness and Growth) • Periodic reporting on strategic and operational matters	Develop, promote and increase the use of standards Provide integrated conformity assessment service solutions Achieve and maintain financial sustainability
Employees	Engaged and motivated employees provide the skills and expertise to support the SABS' objectives	• Security of employment • Reward and recognition • Career progression • Education and training • Transformation • Corporate reputation	Staff engagement at numerous levels, such as performance reviews, training and development needs analysis	Achieve and maintain financial sustainability Creating and maintaining a high-performance culture

Stakeholder group	Why they are important	Their interest in the SABS business	How the SABS engages	Link to strategic objective(s)
Clients and industry associations	• Users of the SABS' products and services. Source of revenue and cash flow to support financial sustainability • Key participant in technical committees and the SABS' forums as part of the standard setting process • Involved in various ministerial and **the dtic** forums. • Influences perception of the SABS	• Supply of quality and timely solutions to meet client needs • Good corporate citizenship • Reputation	• Contract and service agreements • Meetings • Industry conferences • Satisfaction surveys • Standards setting forums	Provide integrated conformity assessment service solutions Continuous improvement in internal systems and process Develop, promote and increase the use of standards
International and regional standards bodies	• Participation in the development of international standards • Promotion and application of standards in the African region - contributes to the development of the South African economy	• Application of international standards locally • The SABS is seen as a key partner in the development of standards in Africa	• Membership to ISO, IEC, ARSO, AFSEC and SADCSTAN • Meetings • Standards forums	Develop, promote and increase the use of standards
Government and regulators	Develop legislation and policies that directly impact the SABS business. Provides the enabling regulatory framework in which the SABS operates	• Job creation • Legislative and regulatory compliance • Socio-economic impact • Environmental compliance • Transformation • Effective application of grant money	• Regular communication, meetings with and reports to: • Standing Committee on Finance • Select Committee on Finance • National Treasury • Department of Employment and Labour	Develop, promote and increase the use of standards Achieve and maintain financial sustainability Continuous improvement in internal systems and process
Society	• End-user or beneficiaries of many of the products tested for quality sold by the SABS' clients • Holds the SABS accountable to be a responsible corporate citizen in terms of social, environmental and governance matters	• Reputation of the SABS Mark Scheme • Effective application of grant money • CSI and socio-economic development projects • Opportunities for employment and business • Transformation	Project specific engagements	Continuous improvement in internal systems and process

THE SABS' REFOCUSED STRATEGY

Over the past few years, the SABS has been confronted with various challenges that have impacted on its ability to effectively execute its mandate and remain financially sustainable. These challenges included: industry complaints regarding standards development, inability to retain customers, growing expenditure base as well as a high employee attrition rate and inadequate skills levels.

The SABS recorded net losses of R1.2 million in FY2019 (re-stated), R70.7 million in FY2018 (re-stated) and R44.4 million in FY2017. In addition to this, the Auditor-General South Africa (AGSA) in their FY2018 auditor's opinion report raised an issue pertaining to the ability of the SABS to remain as a going concern.

The former Minister of the then dti decided to place the SABS under administration in July 2018.

The need for turnaround plan driven by...

The SABS placed under administration in July 2018

Turnaround plan developed with ongoing refinement

Diagnostic process - highlighted...

Increase in customer and industry complaints

Substantial governance and operational performance concerns

Weak financial position and significant sustainability concerns

- **Shareholder/SABS** - unsustainable adversarial policy and mandate creep
- **Stakeholder and client relations** deterioation and sub-optimal resolution of complaints and queries
- Customer specific requirement testing, declining capacity/capability in testing infrastructure
- Ineffective or sub-optimal business process – permit expiry, loss of accreditation, standards development
- **Human capital and policies**
  - Loss of critical skills, long-sanding mission critical vacancies
  - Arbitrary shifting of functions and personnel deployment
  - Sub-optimal suite of policies
  - Pervasive bottlenecks – e.g. procurement
  - Degraded Performance Management
- **Maintenance and facilities:**
  - Serious shortcomings and lack of capex investment in plant and equipment
- **Finances;**
  - Disclaimer audit opinion in FY2018
  - Steep fall in revenue in certification and laboratory services

Short-term "Stabilise SABS"

Medium-term "Fix the business"

Longer-term "Chart a new course"

Three co-administrators were appointed and charged with developing and implementing a turnaround plan for the institution. As part of this process, the strategy of the SABS was refocused to better align the organisation to its mandate and its sole shareholder, improve the standards development processes, create a value proposition to increase and retain customers, return the organisation to financial sustainability, as well as establish a high-performance culture.

A three-pronged approach:

PHASE 1: "Stabilise SABS"

- Co-administrators appointed July 2018
- High-level top-down approach
- Minister approved plan in January 2019 and various successes achieved
- Recognised that despite some achievements there would be no "silver bullet" for an institution in significant distress

PHASE 2: "Fix the business"

- "Integrated Operational Excellence" focus
- Need to rectify various basic business processes before determining a long-term strategic course
- More iterative process involving general and senior managers across the organisation
- Facilitation support from an external specialist and turnaround consultant with the requisite technical skills

PHASE 3: "Chart a new course"

- Address longer-term structural, strategic and systemic issues involving the future direction of the SABS including:
- Its business model and company structure,
- Its high cost, cumbersome and outmoded national infrastructure and
- Its employee profile and
- The mix of 'public good' and commercially viable services.

Desired outcomes

1. Develop, promote and maintain **South African National Standards which are aligned to Government's industrialisation strategies**
2. Provide internationally recognised **conformity assessment services that continue to support the needs of South African enterprises** competing in a fast-paced global economy
3. **Build a capable and efficient SABS:**
   - Reduce financial losses and achieve financial sustainability
   - Improve operational efficiencies
   - Improve employee engagement and create a high-performance culture
   - Increase economic participation of designated groups
4. Participate in the national industrialisation efforts

The key focus of attention in the Standards Division were the following:

Standards development

- Development and publication of National Standards that support **Government's National Policies and industrial priority sectors**
- Improve stakeholder engagement (emerging standardisation needs)
- Support to regional integration (AfCFTA)

Improve operational efficiencies

- Review of **ICT infrastructure, tools and digitisation options**
- **Committee structures and participation**
- Improve **management of projects** for timely delivery of publications

Promotion of standards

- **Promotions and marketing plan** to enhance understanding and uptake of standards
- Upgrade and enhance functionality of current **e-Commerce platform**

In the Certification Division, which has traditionally been the largest revenue earner for the SABS, the co-administrators focused their attention on operational efficiencies that were holding back or restricting revenue growth and the conversion of new customers. The Turnaround Plan focused on the following:

Improve operational efficiencies

- Implement a new **operating model to improve planning and scheduling**
- Review and optimise **process flows**
- Implement new **digital management system**
- **Improve collaboration** across the various divisions
- Ensure **we maintain our RvA and SANAS accreditation**

Increase revenue

- Develop capacity to support **local content verification**
- **Improve engagement** with industry associations and regulators
- **Seek new revenue** opportunities in consignment inspection

The Laboratory Services Division had been subject to length periods of under-investment and required a divisional renewal. The division supplies testing services against both compulsory and voluntary South African National Standards as well as international standards.

Upgrade and refurbishment of laboratories

- Phased **programme to upgrade** laboratories
- Testing Process flows and process optimisation
- Sample management process and system
- **Capex investment**
- Improve laboratory **test conditions**

Improve operational efficiencies

- **Improve planning and scheduling:** Review and standardisation of Labware/LIMS software across the various laboratories
- Filling of critical **vacancies**
- **Address backlogs**

Increase revenue

- Implement a **business development and revenue** programme
- Develop **strategic partnerships**

At a very early stage the co-administrators identified cross-functional alignment as an area requiring attention and the following was undertaken:

Group finance

- Address **external audit** findings
- Refurbishment of **facilities and general infrastructure**, including security
- Resolve **legacy issues relating to buildings**
- Reduce bottlenecks/turnaround times **of procurement** processes
- Implement **new pricing strategies**
- Develop **property optimisation** strategy

Human capital

- Review organisational design and conduct skills audit
- Improve employee engagement
- Review of key policies
- Filling of critical vacancies and implement a graduate programme
- Drive a high-performance culture
- Implement new performance management system

Marketing

- Improve marketing efforts

The table below summarises the refined strategic objectives for the SABS as well as the key performance indicators and targets for 2020/21 to 2022/23. For more on the performance of the SABS on its 2019/20 approved strategic objectives, refer to pages 17 and 18.

Annual performance plan for 2020/21 to 2022/23

Outcome	Output	Output indicator
Develop, promote and maintain South African National Standards which are aligned to Government's industrialisation strategies or plans	Develop agreed standards roadmap which are aligned to Government's industrialisations master plans	% of standards roadmaps completed as per agreement with **the dtic**
Provide an internationally recognised conformity assessment services that continue to support the needs of South African enterprises competing in a fast-paced global economy	Improvement in overall customer satisfaction with the SABS' services	Customer satisfaction rate
	Attract and retain customers	Increase in number of active customers
Build a capable and efficient SABS: • Reduce financial losses • Improve operational efficiencies • Improve employee engagement • Increase economic participation of designated groups	Achieve and maintain financial sustainability of the SABS Group	Net profit of the SABS Group
	Improve cost-to-income ratio of the SABS Group	Cost-to-income ratio of the SABS Group
	Improve employee engagement	Employee engagement rate
	Supporting the economic participation of designated group	• % of women supported
		• % of youth supported
		• % of people of disabilities supported

Actual	Target performance	MTEF Period			Some key initiatives
FY2019/20	FY2021	FY2021/22	FY2022/23	FY2023/24	
80% (Note 1)	80% (Note 1)	80%	80%	80%	• Participation in key regional and international standardisation bodies • Strengthen technical committees • Improve stakeholder engagement
69%	75.6% (June 2020)	75%	80%	85%	• Integrated customer service model • Review of survey methodology
7 412	Maintain 2019/20	5% annual increase from prior year	5% annual increase from prior year	5% annual increase from prior year	• Testing infrastructure upgrade • Digitisation programme • New product/service development • Marketing programme
Loss of R61.6 million	Loss below R51.5 million	Loss below R148.8 million	Loss of R78.9 million	R61.1 million profit	• Revenue generation initiatives as detailed above • Prudent cost management • Productivity enhancement programme
115%	106%	132%	120%	116%	• Review of key operational processes • Digitisation programme • Testing infrastructure upgrade • Productivity enhancement programme
0	Rating of 3 out of 5	Rating of 3 out of 5	Rating of 3 out of 5	Rating of 3 out of 5	• Review of key policies and procedures • Review of health, safety and environment practises • Targeted recruitment
44.7%	44.7% (June 2020)	46%	48%	50%	• Targeted recruitment
21.4%	20.2% (June 2020)	24%	27%	30%	
1.6%	1.7% (June 2020)	1.8%	1.9%	2%	

MANAGING RISKS

Enterprise risk management is an integral part of the SABS' efforts towards opportunity maximisation. The Accounting Authority actively manages risk in pursuit of organisational goals and objectives. The Accounting Authority also recognises that the realisation of its mandate depends on the ability of the leadership team to effect innovative and bold steps to transform the institution into a highly professional services institution, as well as mitigate the risk of compromising the SABS' legislative mandate and delivery of quality service to all stakeholders, including those which are considered national public good services for which there is not a significant commercial return on investment.

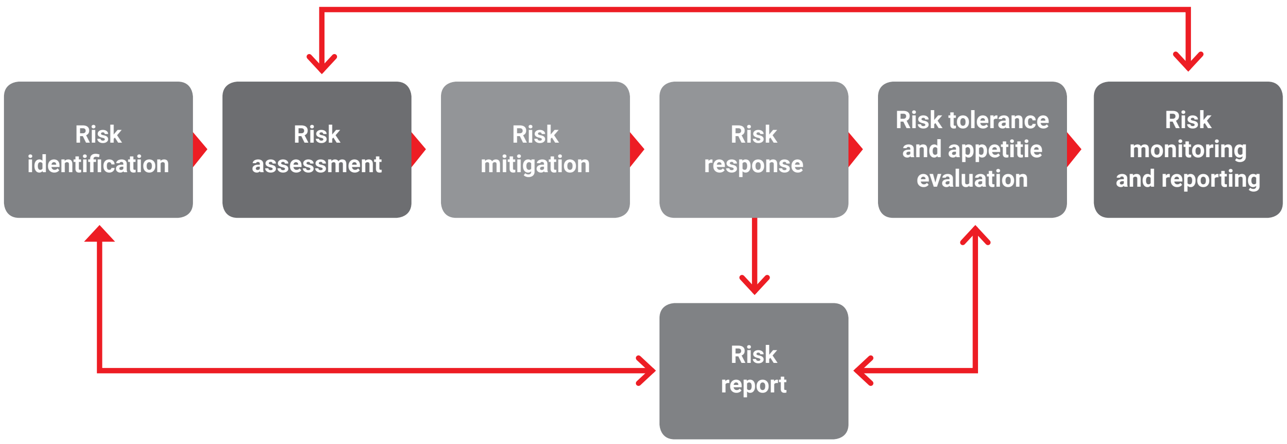
Risk management

The SABS adheres to the risk policies and processes aligned to the King Code of corporate governance. The Audit and Risk Committee is responsible for risk management oversight. The organisation has adopted an enterprise-wide risk management (ERM) approach to the management of risks impacting the strategic and operational objectives of the organisation. The risk and compliance department headed by the Chief Risk Officer is responsible for the ERM portfolio and is tasked to implement effective and efficient systems of risk, ethics and compliance management in the SABS in line with the Public Finance Management Act (PFMA) and relevant prescripts.

The risk management portfolio includes:

- Risk management
- Strategic risk management
- Operational risk management
- Project risk management
- Anti-corruption, fraud prevention and awareness
- Business continuity management
- Compliance management
- Ethics management

The SABS' risk management framework



Combined assurance - Five lines of defence framework

The SABS has adopted a "five lines of defence" model to manage risk. The model defines the roles and responsibilities for the management of risk and emphasises the fundamental concept that risk ownership and management is everyone's responsibility, from Accounting Authority-level and throughout the business. The model is summarised below.

Line of defence	Role	Responsibility
First	Management and business	Owns and processes risk management policies and procedures
Second	Specialist functions	Provides specialist support to management in the management of risk. Includes areas such as risk and compliance, accreditation as well as HSE units
Third	Internal assurance providers	Supplies independent assurance on the effectiveness of risk management by internal auditors
Fourth	External assurance providers	Gives independent assurance on the effectiveness of risk management by the SABS' external auditors and accreditation bodies such as SANAS and RvA
Fifth	Accounting Authority	Oversees the activities of the SABS and accounts to the shareholder for strategy and performance

Material risks and mitigation strategies

During the year, the Accounting Authority considered various reports from management on the key strategic risks facing the SABS. No changes to the key risks occurred in the year, however the risk profile for three risks increased in the year. The remaining risks remained unchanged. Further detail, together with mitigation actions are presented below.

Risk	Residual risk	Movement in risk from FY2018	Key mitigation actions in place or being planned	Strategic response
Financial sustainability	High	Risk increased	• Develop and execute the new business pipeline from sales to revenue conversion • Conclude partnerships with additional laboratories to enhance the SABS' testing capability • Strengthening of cost containment measures • Establish new business opportunities • Upgrading the aging infrastructure to improve productivity and operational efficiencies	Provide integrated conformity assessment service solutions Continuous improvement in internal systems and process Creating and maintaining a high-performance culture Achieve and maintain financial sustainability
Loss in stakeholder confidence and client satisfaction	High	Risk unchanged	• Implement government's industrial policy in line with the corporate plan which includes standards development and regional integration deliverables. • Enhance strategic relationships with regulators, industry associations government departments and other government entities to provide value-adding customised services • Developing new digital channels to improve the customer experience and improve service/product request and customer engagement turnaround times and provide better visibility of customer and stakeholder engagements • Review and implement the Stakeholder engagement plan	Continuous improvement in internal systems and process Provide integrated conformity assessment service solutions Develop, promote and increase the use of standards
Laboratory infrastructure constraints and facilities	High	Risk unchanged	• Develop and implement infrastructure upgrades and maintenance plans • Phased approach to replace and /or repair aged infrastructure	Continuous improvement in internal systems and process
Loss of accreditation	High	Risk increased	• Implement annual action plan for maintenance of accreditation status in Laboratory and Certification operations • Appointment and development of competencies (technical signatories)	Continuous improvement in internal systems and process Creating and maintaining a high-performance culture
Inadequate legislative compliance & legal action, including fraud and corruption	Medium	Risk unchanged	• Detailed compliance gap analysis of relevant legislation. Implement plans to closeout legislative compliance gaps • Ongoing monitoring and evaluation of legislative compliance • Legal action and litigation management • Conduct minimum anti-corruption capability assessment • Implement anti-corruption and fraud prevention implementation plan (including awareness) • Conduct fraud and ethics risk assessments • Develop and implement ethics management strategy • Investigations and reporting	Continuous improvement in internal systems and process

MANAGING RISKS (continued)

Risk	Residual risk	Movement in risk from FY2018	Key mitigation actions in place or being planned	Strategic response
Inadequate management of talent and performance	High	Risk unchanged	• Implement a performance management compliance framework to reinforce governance, compliance and improved culture • Implement a performance management system in line with the timeframes and other requirements, conduct compliance analysis and escalate non-compliance for management action • Implement a talent management strategy with more focus on the following key initiatives: - Development of core and critical skills matrix and conducting skills gap analysis - Revise and implement the talent sourcing plans to attract and retain skills	Creating and maintaining a high-performance culture
Health, safety and security	Medium	Risk unchanged	• Health and safety training (health and safety representatives, incident investigation, legal liability compliance, induction) • HSE risk assessments and medical surveillance • Design security system • Implement interim physical security measures	Continuous improvement in internal systems and process
Inadequate modernisation, integration of systems and ICT security	High	Risk increased	• Implementation and effective monitoring of the SABS Digital Transformation plan • Enhance the ISMS implementation to establishing an Information Security Management System that is in line with industry standard (ISO 27001) • Enterprise Vulnerability Management to manage ICT Risks at an acceptable level through identification and treatment of risks • ICT Security Performance and Continuous improvement to review of ICT security controls and their effectiveness	Continuous improvement in internal systems and process
Standards development	Medium	Risk unchanged	• Develop and implement the Standards Strategy • Develop and implement the Standards Development Project Management Plan • Implement Standards Stakeholder engagement plan for improved relations	Develop, promote and increase the use of standards Continuous improvement in internal systems and process
Funding of local content and regulatory services (vehicle test station)	Medium	Emerging risk	**Local Content Verification Programme** • Develop and implement a funding model for verification to be conducted in terms of the PPPFA. In the interim, apply grant funding allocated by **the dtic** to the SABS to the programme. • Pursue winning bidders to fund local content verification (case-by-case, winning bidder or procuring organ of state funding arrangements) **Funding of vehicle test station** • Propose to the National Department of Transport for increase in the fees for Vehicle Test Stations	Achieve and maintain financial sustainability
Business continuity (business Interruption)	Medium	Emerging risk	• Review and testing of emergency response procedures • Investigate and implement generators and UPS for critical laboratory equipment on Greonkloof campus and the SABS regions • Development of recovery strategies • Development and implementation of Enterprise Business Continuity Management Programme which includes business continuity and crisis communication plans	Continuous improvement in internal systems and process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PERFORMANCE AND OUTLOOK

OPERATIONAL REPORTS

STANDARDS DIVISION

Business overview

Business objective

Developing, maintaining and promoting South African National Standards (SANS) is the primary function of the Standards division of the SABS. National Standards serve as a vehicle for the dissemination of new technologies and innovative practices, facilitates trade and supports industrialisation objectives. Standards further support the technical aspects of social and environmental policies; contribute to sustainable development; and can be used as a basis for national technical regulations without causing unnecessary technical barriers to trade. SANS provides a range of tools for the various modes of conformity assessment to enhance confidence in products, systems, processes, and personnel, thereby assisting consumers in making informed buying decisions - Fit for purpose products and services.

Products and services

- Develop and maintain SANS, South African Technical Standards (SATS) and South African Technical Reports (SATR)
- Represent South Africa in International and Regional standards organisations such as ISO, IEC, ARSO, SADCSTAN, AFSEC and PASC
- Sale of standards
- Economic impact assessment of standards published
- The SABS is the designated authority to the World Trade Organisation's "Technical Barriers-to-Trade" (WTO/TBT) enquiry point in South Africa

Performance overview

Performance highlights

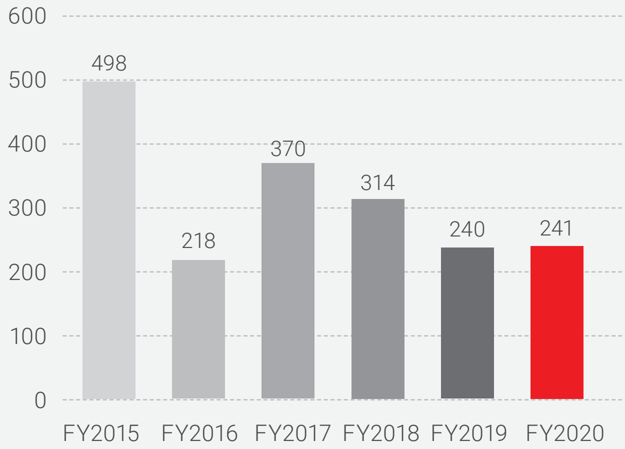
The Standards Divisions:

- Produced a turnaround time of 412 days to publication, reflecting a vast improvement compared to the 497 days to publication at 31 March 2019,
- Published a total of 241 standards for the year
- Developed 96 home-grown standards of the total of 241 publications
- Successfully hosted the ISO General Assembly, September 2020, Cape Town
- Concluded two MoUs with the Ethiopian Standards Authority and the Botswana Bureau of Standards
- Signed the UNECE Declaration on Gender responsiveness Standards and Standards Development. The implementation of the SABS action plan will be monitored during 2020-2023.
- Completed two standardisation sector reports covering agro-processing and fourth industrial revolution (4IR) in support of **the dtic** industrial priority sectors
- Developed a regional engagement framework to support the implementation of the AfCFTA
- WTO/TBT ePing Pilot workshop and training for regulators and industry– the SABS had secured technical assistance from the WTO to support South Africa with the full implementation
- Standards sales earned R31.7 million against a budget of R26.1 million

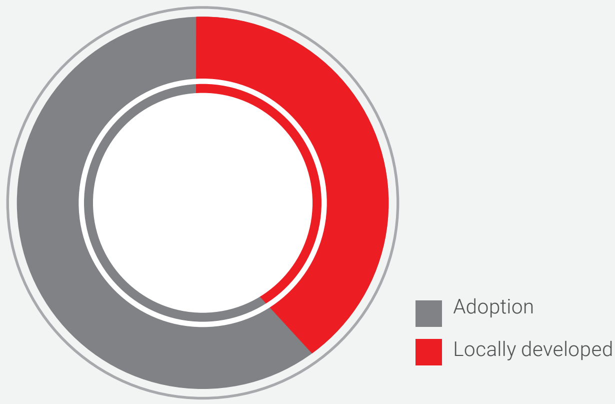
Performance lowlights

- Of the 9 IPAP standards project commitments, 5 were completed within the year (end March 2020), 2 projects were published in April 2020 due to the impact of Covid-19 while the remaining two projects were cancelled through a resolution by the technical committee

Total number of standards published

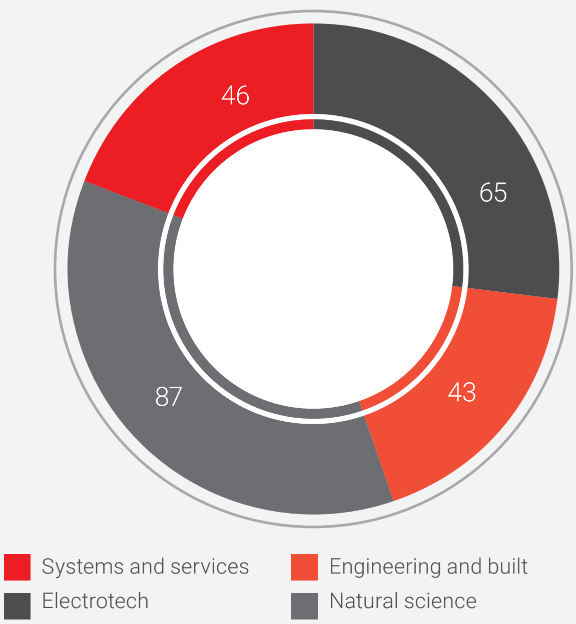


Locally developed versus adoption

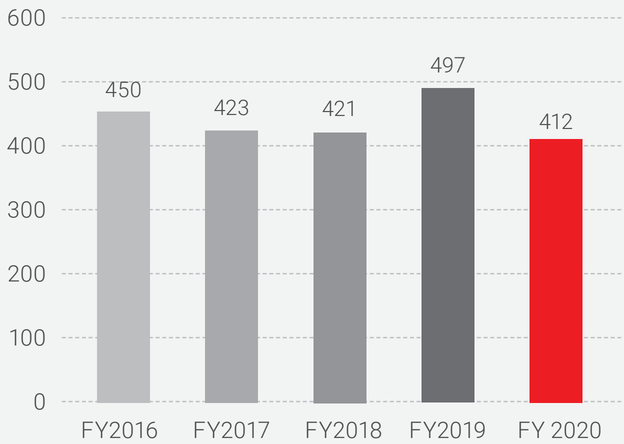


Locally developed standards are standards initiated and developed by local experts tailored for the local application to support growth of local industries and also ensuring capacity for exports.

Standards published per segment



Average number of days to publish a standard



Measured from project approval date to approval of standard for publication

By the numbers			
		FY2020	**FY2019**
Staff	Number	**80**	82
Total standards publications	Number	**7 489**	7 440
Technical committees meetings held	Number	**149**	174
Participants in technical committees	Number	**2 758**	2 803
Technical committee satisfaction index	%	**78%**	75.4%
Standards published			
• Home-grown	Number	**96**	130
• Adoptions	Number	**145**	110
Days to publication (turnaround times)	Days	**412**	497
Standards in various stages of development (at year end)	Number	**820**	766
Sale of standards	Value	**R31.7 million**	R31.2 million
WTO/TBT			
• Total subscriptions	Number	**310**	308

The year ahead

- Development of standards
  - Support government in the focused development of standards linked to and prioritised in the various master plans as identified as part of government's Industrial Strategy Master Plans
  - Improve productivity and efficiency of the standards development process
  - Promotion of standards
  - Review and improve systems, procedures and subscriptions models to improve access to standards
- Standard sales
  - Focus on broader promotion and a sales and marketing drive to increase the uptake and implementation of standards

OPERATIONAL REPORTS (continued)

CERTIFICATION

Business overview

Business objective

The SABS Certification is a division of the SABS which provides independent third-party certification services, assuring that products, systems and services comply with pre-defined standards and customer specifications. The SABS' Certification division provides the platform for quality services and products which is the key differentiator in an increasingly competitive environment by delivering relevant conformity assessment services that facilitate access to markets for South African industry, thereby improving its competitiveness in the global trade environment. The division provides its services across all 39 European Accreditation Codes (EA Codes) whilst the SABS Mark Scheme has a presence in 33 countries.

Products and services

- Certification including quality management system and product certification (Mark Scheme)
- Local content verification in terms of the implementation guidelines of the recently published Mining Charter as well as fulfil the verification requirements of designated products and sectors for local procurement in line with the amended regulations to the Preferential Procurement Policy Framework Act (PPPFA)
- Consignment inspections
- All the above service offerings are critical to the survival of any business by bringing greater access to higher-quality products and services which drives competitiveness and fuels economic growth. These enhancements of value chains help with the compatibility of products and services and opens doors to new markets. These services are not just to uphold the quality but also the sustainability of methods of production which are key for any organisation seeking to unlock new markets.

Performance overview

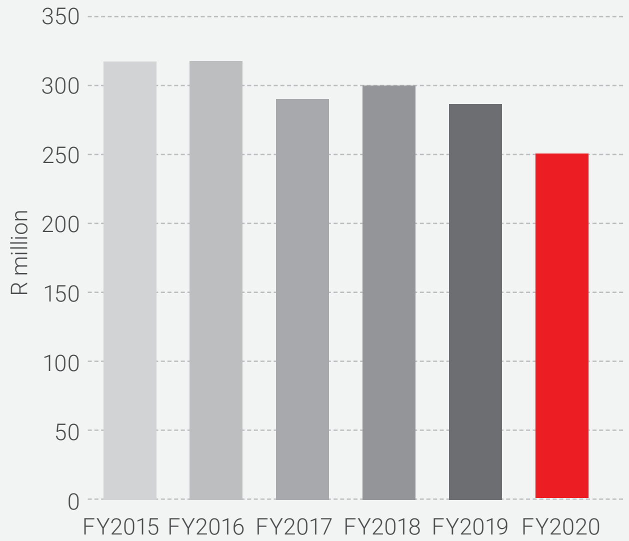
Performance highlights

- Certification division of the SABS has managed to maintain both SANAS and RvA accreditation assessment for consignment inspection, management system and product certification. This attestation by the accreditation bodies implies that the SABS management system is still intact and it continues to service its clients effectively, notwithstanding impact of COVID-19 implications.. Continued maintenance of accreditation by the SABS implies our clients continue to supply safe products, safe transport, safe food, in fact all aspects including supporting the government, regulators and business in meeting their objectives.
- The SABS has been collaborating with Business for South Africa in verifying PPE products and Supplier Vetting processes that get uploaded onto the B4SA Covid-19 manager website for possible procurement in line with national and/or international requirements before possible procurement takes place. To date a total of 4 500 supplier vetting has been executed, this also included, where necessary, drawing of samples for testing.

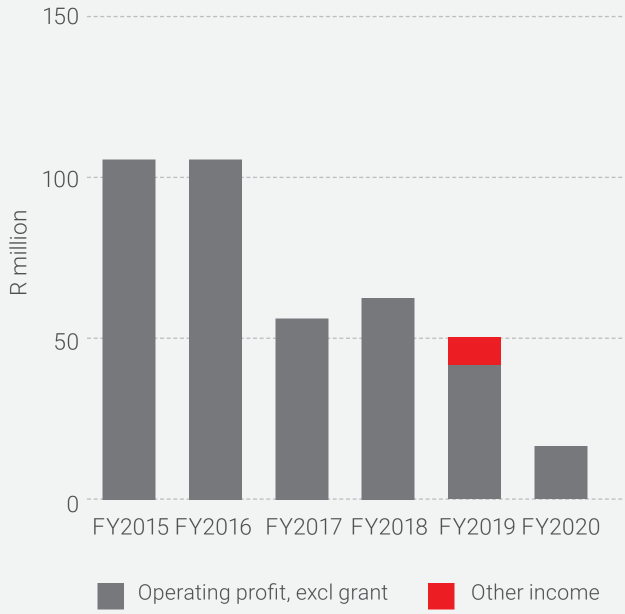
Performance lowlights

- Operating profit down to R16.3 million (FY2019: R36.2 million) in a challenging economic operating environment
- External revenue down to R250.0 million - FY 2020 and R281.4 million - FY2019 according to the audited financials
- The under under-performance was mainly attributable to:
- Low volume of business, driven by low economic growth as well as impact of legacy issues
- Covid-19 pandemic has led to the postponement of various planned site audits in March 2020
- Achieved an average customer satisfaction rating of 79.0%, marginally below the target of 80%

Revenue



Operating profit



By the numbers

		FY2020	FY2019
Revenue - external	R million	**R250.0m**	R281.4m
Operating profit	R million	**16.3**	36.2
Staff	Number	**206**	204

The year ahead

Third-party management systems certification is increasingly becoming a critical tool for market access globally. Certification by an accredited certification body demonstrates compliance to a standard, an industry specific code of practice or regulatory requirements, and is an important business improvement and sustainability tool. As South Africa continues to drive localisation as an industrial policy instrument, the provision of product and systems certification services, aligned with local content verification in an efficient and globally competitive manner, will be critical in supporting the industrialisation effort and the creation of a globally competitive industrial capacity in the country.

Key initiatives planned include: introducing new industry focused certification schemes; loading assurance / pre-shipment inspection; localisation of certification schemes aimed at supporting designated sectors; roll out of local content verification in support of mining houses' Mining Charter obligations as well as roll out of a proactive voluntary local content grading system.

OPERATIONAL REPORTS (continued)

LABORATORY SERVICES

Business overview

Business objective

The SABS' laboratory (or testing) activities provide an extensive array of testing, inspection and evaluation capabilities across a diverse range of technologies. The SABS testing capability is the most extensive and comprehensive service of its kind in Southern Africa. Operations are split across five business lines: electro-technical, automotive and mechanical, mining and minerals, food and health, and chemicals and materials.

Products and services

- Sampling, testing and analysis
- Environmental monitoring
- Proficiency testing
- Reference materials

Performance overview

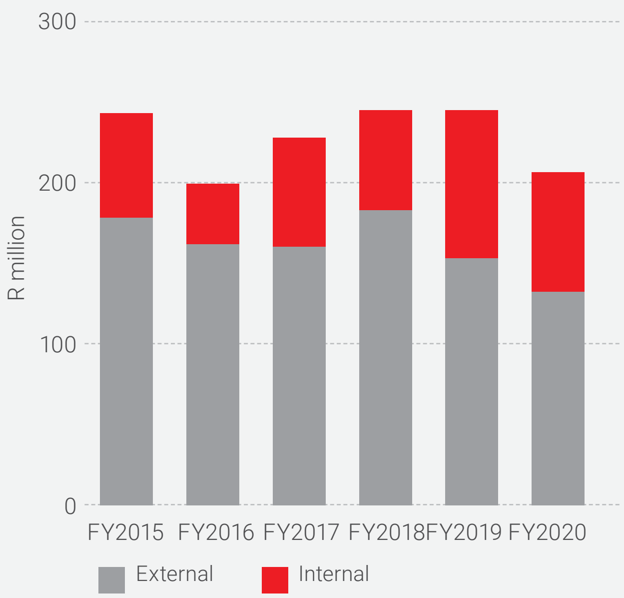
Performance highlights

- The second phase of VDE training in Germany took place from 20-24 January 2020 for staff in the appliances unit. The first phase of the training was conducted in December 2019 in Pretoria, at the SABS Groenkloof campus.
- Refurbishment of four prioritised laboratories was completed during the quarter bringing the total number of laboratories refurbished to six. Three laboratories have been identified and refurbishment is planned in the next quarter, subject to the lifting of lockdown restrictions.
- Improvement in the availability of testing environmental conditions has been achieved following the successful completion of the plant room refurbishment project conducted in December 2019.

Performance lowlights

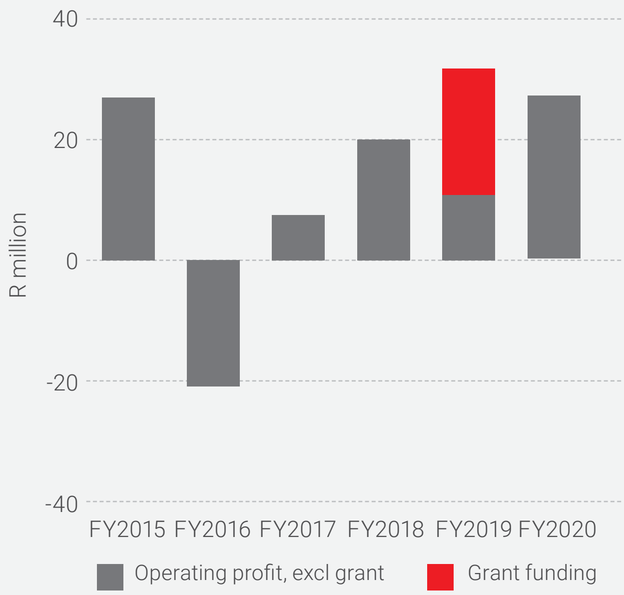
- Customer satisfaction ratings remain a concern and are receiving attention. At year-end the division achieved a satisfaction rating of 54% (target: 65%)
- Revenue target was not achieved.

Revenue, excl grant



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

Operating profit



By the numbers		FY2020	FY2019
Revenue - External	R million	**12.1**	10.2
Operating profit/(loss)	R million	**2.3**	0.9
Trainees (internal and external)	Number	**2 162**	1 765
Staff	Number	**11**	12

The year ahead

The SABS' laboratory services division has in recent years been challenged by aging infrastructure and equipment as well as difficult economic conditions. Furthermore, ever increasing competition in the commercial testing space and challenges to retain skills have left many laboratories at a point of marginal capability to operate, eventually rendering several operating at a loss. Consequently, the focus for the forthcoming year will be on:

- The implementation of an infrastructure and equipment renewal programme aligned to the sectoral Master Plans and the approved SABS turnaround plan
- Continue the phased roll-out of customer specific requirements testing
- To seek new business development opportunities in the following markets: automotive and mechanical (mostly in civils and pump testing), chemicals and materials (paints), electro-technical (testing of switchgears and transformers), food and health (Covid-19 essential products and food safety) as well as mining and minerals (coal and other minerals).
- Complete transition to SANAS 17025:2018 accreditation
- Improved overall customer engagement and operational efficiencies through business intelligence reporting and digitisation solutions

TRAINING ACADEMY

Business overview

Business objective

The SABS' Training Academy seeks to enhance the skills of industry and government professionals in understanding and implementing SANS. Training is facilitated through the traditional classroom training model and is presented at training facilities in Gauteng, KwaZulu-Natal and Western Cape.

Products and services

The Academy currently offers a diverse portfolio of training courses, focusing mainly on management system standards which includes ISO 9001: Quality Management System (QMS), ISO 14001: Environmental Management System (EMS), ISO 45001, Occupational Health and Safety Management (OHS) and ISO 22001: Food Safety Management System standards, amongst others.

Performance overview

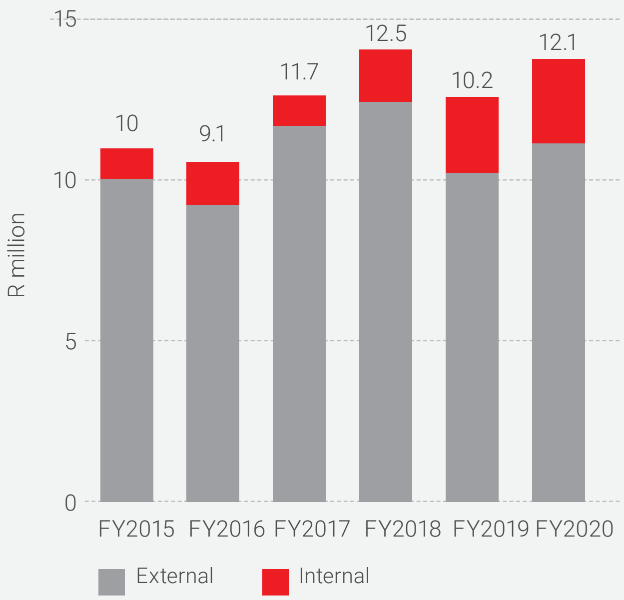
Performance highlights

- Launched one new product on R638 leadership, bringing the total number of new training courses launched in the year to four
- The finalisation and acceptance of the SANS 10400 development project
- The capacitation of SMME's through the Agribusiness Development Agency
- The Academy received a favourable satisfaction rating of 83% for the year

Performance lowlights

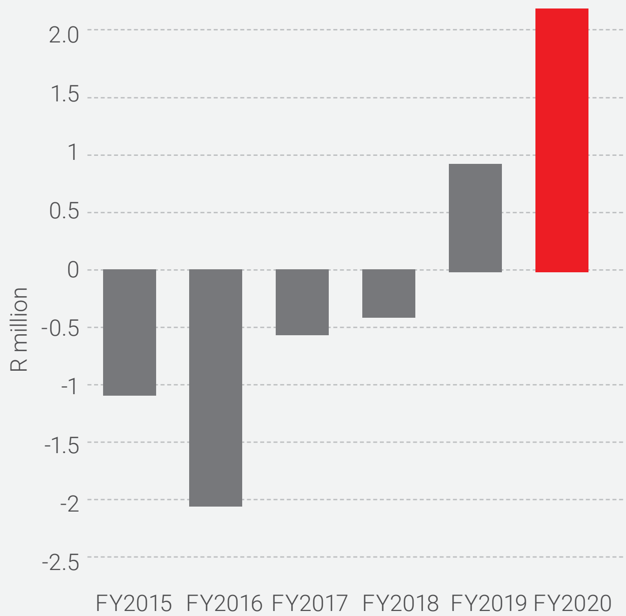
- Inability to convert quotes issued for training course as training budgets during the second half of the year were cut by customers

Revenue

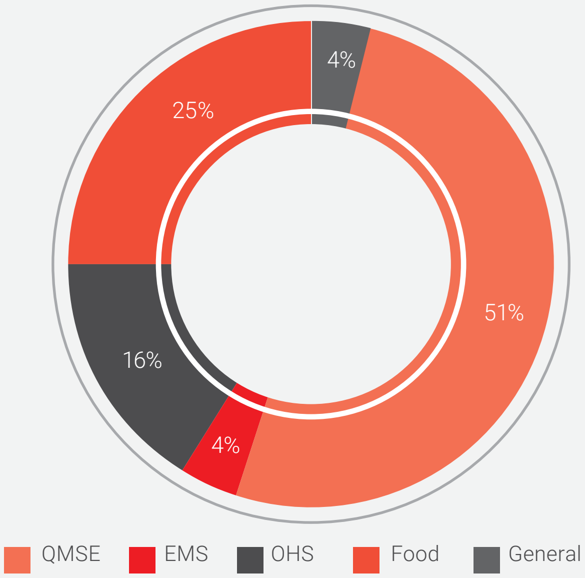


Internal revenue comprises, revenue generated from training provided to employees across the group

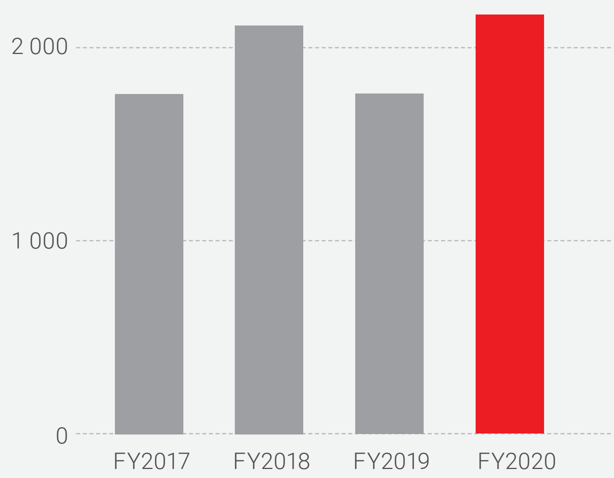
Operating profit/(loss)



Training by type



Number of trainees



By the numbers			
		FY2020	**FY2019**
Revenue - External	R million	**12.1**	10.2
Operating profit/(loss)	R million	**2.3**	0.9
Trainees (internal and external)	Number	**2 162**	1 765
Staff	Number	**11**	12

The year ahead

Significant growth opportunities exist in the training sphere. Locally the SABS will seek to leverage technology to deliver training through blended and e-learning platforms, implementing the internal digital transformation, including digital marketing, to support improved engagement with trainees and enhance operational efficiencies as well as boosting partnership with government entities in support of the need to develop management and technical skills of public sector employees.

The African region, beyond South Africa offers a significant market for the development of standardisation and technical skills of its people. The Academy will broaden its footprint into the continent through innovative marketing and sales strategies, with tailored value propositions that meet the unique needs of clients.

INTEGRATING SUSTAINABILITY

As an organisation, the SABS recognises the importance of operating in a sustainable manner. Employees of the SABS are key stakeholders of the organisation and essential to its continued success and sustainability. As a result, the SABS is committed to providing a safe, healthy and enabling workplace that is characterised by mutual respect, fairness, integrity, non-discrimination, equal opportunities and open, two-way engagement. The SABS acknowledges its moral and legal responsibility to safeguard the environment and the wellbeing of all those affected by the activities of the organisation. This section illustrates how the SABS does this and indicates the results achieved in FY2020.

HUMAN CAPITAL

The SABS is a team of committed individuals. Built on the foundation of strong values and a commitment to the SABS code of ethics, the SABS strives to provide a safe, challenging and rewarding environment for each of its employees.

Creating an environment in which employees can thrive

Skilled, accountable and passionate employees are a critical success factor for the organisation. The employee turnover rate: the SABS seeks to attract, develop and retain appropriately qualified and experienced individuals who present the right mix of technical and behavioural competencies that address targeted business requirements.

The SABS Human Capital strategy is underpinned by the following focus areas:

Talent management	Leadership and culture	Reward and recognition	Performance management
Combining the right processes, programmes and culture elements to ensure that the SABS can attract, develop, mobilise, optimise, engage and retain the best people	Creating awareness of the required behavioural changes to bring about cultural and leadership shifts to ensure that the SABS transitions towards a service and client centric culture	Establishing a "fit-for-purpose" remuneration and reward philosophy and framework	Implementing performance management practices that set and evaluate goals on a different basis, that requires ongoing performance feedback focused on learning and future development, to ensure that appropriate steps are taken to enhance performance and help employees grow their careers

As the SABS continues to deliver on its mandate, the HC function is evolving with the business to provide more integrated and relevant solutions. Particular focus during the year was on:

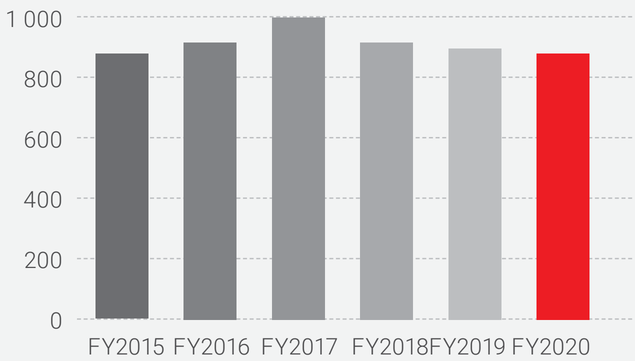
- Implementing programmes to support the growth of technical and functional expertise in core operational business areas
- Review of the performance management system as a key driver for building a high performance culture
- Strengthening the working relationship between employees to support constructive dialogue and meaningful partnerships

The SABS workforce profile at a glance

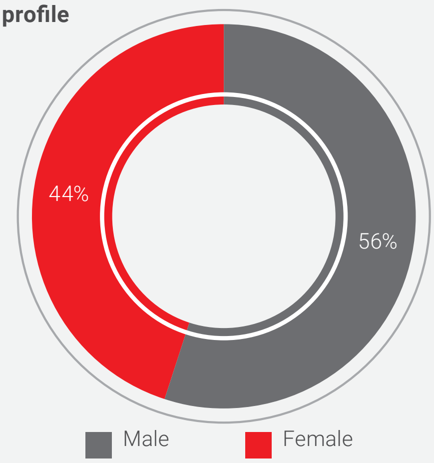
856 employees and fixed-term contractors
45% female representation
85% black representation
21.4% of staff compliment aged 35 and below
Total employee turnover rate: 4.7% (FY2019: 6.1%)

Appointed 64 new staff members
49 resignations, 25 contracts ended, 12 retired, 1 dismissed, 1 medical unfit and 0 abscondments
1 non-work related death (FY2019: 2)

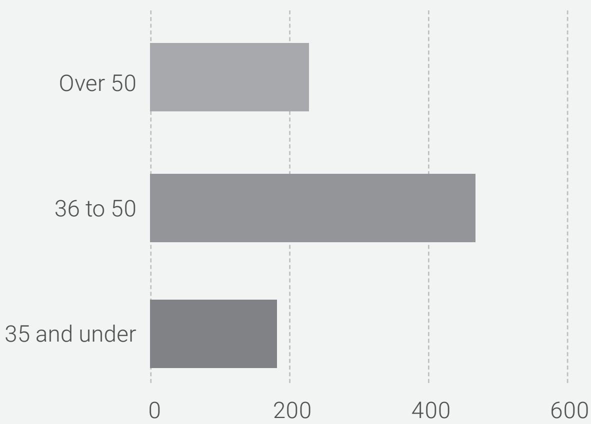
Headcount



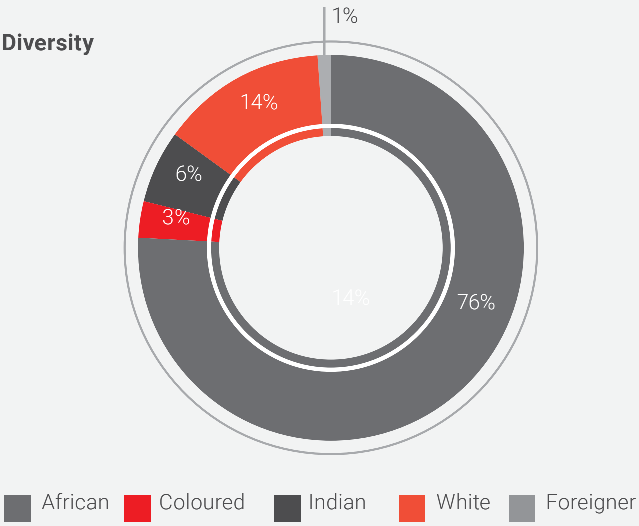
Gender profile



Age profile (number)



Diversity



SABS workforce profile according to the Department of Labour occupational levels

	Males				Females				FY2020			FY2019
Occupational level	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**Male**	**Female**	**Total**	**Total**
Top management (P1 3)	1	0	1	0	1	-	1	-	2	2	4	8
Senior management (P4)	6	-	2	3	1	-	1	1	11	3	14	13
Middle management (P5 -7)	51	4	11	25	44	3	4	11	91	62	153	159
Junior management (P8 -11)	181	11	17	38	209	8	11	44	247	272	518	535
Semi- and unskilled	119	-	1	2	42	1	1	-	122	44	167	172
Total FY2020	**358**	**15**	**32**	**68**	**297**	**12**	**18**	**56**	**473**	**383**	**856**	**887**
Total FY2019	**368**	**18**	**32**	**81**	**297**	**12**	**19**	**60**	**499**	**388**	**887**	

Building talent to drive performance excellence into the next growth horizon

The SABS' operating environment requires employees to be adaptable, results-driven, self-motivated, decisive and responsive team players. All employees are provided with equal opportunities for development, advancement and promotion on merit and without prejudice.

A structured performance management process is in place across the SABS, with performance reviews based on functional and business unit strategic objectives. Short-term performance incentives as well as annual salary increments for assessed staff are determined with reference to the completed appraisals. Development and training needs are also identified during this process. Business unit managers are responsible for the implementation of effective training programmes to address identified skills development needs with the support of the HC division.

Training interventions across the SABS included short training courses, attendance of seminars and workshops, management and leadership development programmes as well as executive coaching programmes.

In quarter 4, 139 employees participated in various training interventions, including conferences and seminars, bringing the total number of employees trained for the year to 491. R4.1 million has been invested in training interventions against the annual budget of R6.3 million.

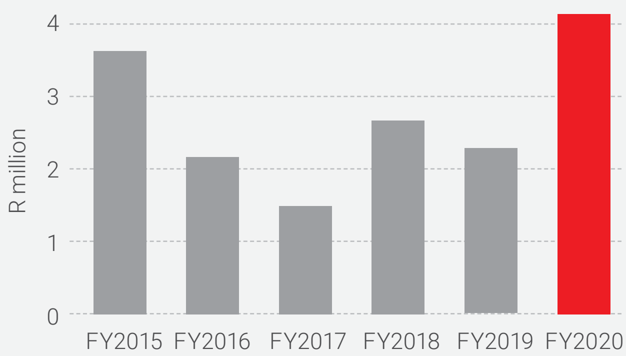
As part of the turnaround plan of the SABS, focus will be on reviewing and finalising the SABS policy suite; ongoing work on employment relations (labour and management forum); scorecards and performance management; implementation of equity policy, specifically with respect to gender; employment contracts review, organisation review, skills audit, talent acquisition and retention and building of HC divisional capacity.

491 employees participated in **74 training interventions** in the year

The SABS' **total investment** in employee training, excluding bursaries, amounted to R4.1 million (FY2019: R2.4 million)

Financial assistance towards studies was awarded to employees to the value of R0.98 million (FY2019: R0.8 million) in the form of bursaries.

Training spend



Includes seminars and workshops

Economic participation of designated groupings

The SABS is expected to support the economic participation of designated groupings namely, women, youth and persons with disabilities, in the industrial economy. The SABS contributes to the initiative by supporting individuals through the SABS' Innovators programme led by the SABS Design Institute (external focus) as well as by appointing designated people into the SABS (internal focus).

At the beginning of the financial year, a decision was made to wind-up the Design Institute. Consequently, no support was provided on the SABS Innovator Programme in the year.

As at 31 March 2020, the SABS progressed as follows:

Key performance area	External focus Actual 1	Internal focus Actual 2	Total		Target
			Actual	%	
Women	-	383	383	44.7%	50%
Youth (35 and below)	-	183	183	21.4%	30%
Persons with disabilities	-	14	14	1.6%	2%
Total supported / headcount	-	856	856	100.0%	No Target

Respecting employee rights

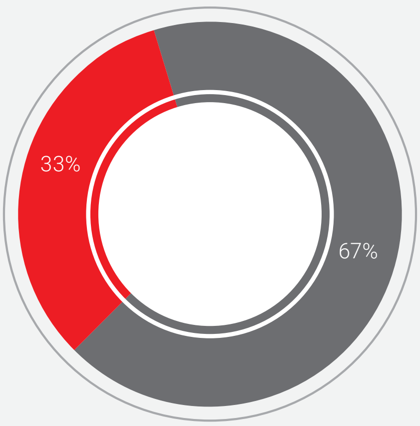
The SABS is committed to upholding good labour principles and a working environment that is free of prejudice, bias, harassment and/or violation. The SABS' code of ethics entrenches the right of all employees to be treated with fairness, equality and respect. Unfair discrimination of employees on the basis of gender, race, physical health, sexual orientation, individual belief systems and/or any other prejudicial grounds is prohibited. Human capital, employee relations and legal compliance frameworks are in place to uphold employee rights and ensure compliance with labour legislation.

Employee wage rates across the SABS comply with legislated wage rates. Where applicable, employees are paid in accordance with rates agreed on with trade unions and/or collective bargaining councils. Salaries are benchmarked against industry standards to ensure that employees are offered competitive remuneration packages that promote retention objectives.

Employees are free to exercise their rights to belong to trade unions and collective bargaining councils. Relationships with trade union representatives, considered to be key stakeholders, are managed in a proactive and responsible manner by Human Capital managers. Formal processes are in place to foster a culture of transparency and constructive engagement with trade union representatives in each territory. Material operational changes are communicated to the employees' trade unions, as necessary, within legislated timeframes and these vary across the territories.

Formal grievance procedures are in place and communicated to employees in each business unit. During the course of the previous year, a case of unfair labour practice dispute relating to the provision of benefits was collectively lodged by the managers. At year-end, the matter had not been resolved.

Union representation



Non members NEHAWU Other

"Others" include AMCU, CEPPWAWU and SAPTU

69% of employees belong to a trade union

9,056.25 hours lost due to labour action

HUMAN CAPITAL (continued)

Supporting the well-being of employees

Employee health, wellness and fitness for work are fundamental contributors to an employee's ability to effectively execute his or her designated responsibilities and to implement innovative and value-adding initiatives for the business. To this end, employee benefit arrangements include tailored healthcare insurance plans for employees and their direct dependants where this is practicable and appropriate. On-site clinics, employee assistance programmes and wellness support programmes are also available.

Providing a safe working environment

A safe work environment is a vital component for employee productivity, well-being and performance. Therefore, to ensure a safe and healthy environment for employees and all stakeholders, the SABS focuses on complying with the Occupational Health and Safety Act, 85 of 1993 and its regulations as well as the Compensation for Occupational Injuries and Diseases (COID) Act, 130 of 1993.

A dedicated health, safety and environmental (HSE) management unit guides the SABS on all health and safety matters, legislation and regulatory updates.

Approach to health and safety

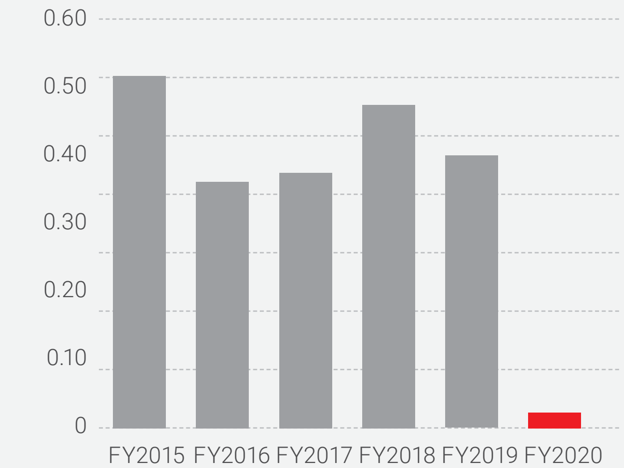
The SABS' approach to safety is built on a strong foundation of visible leadership and competency, and is supported by clear policies and procedures.

OHS policy cascaded throughout the SABS	Formalised **risk assessment** and mitigation plans	**Reporting to and monitoring** at senior management level	**Workforce representation** in safety and health management	Ongoing focus on **training** and **process improvement**

Measuring health and safety efforts

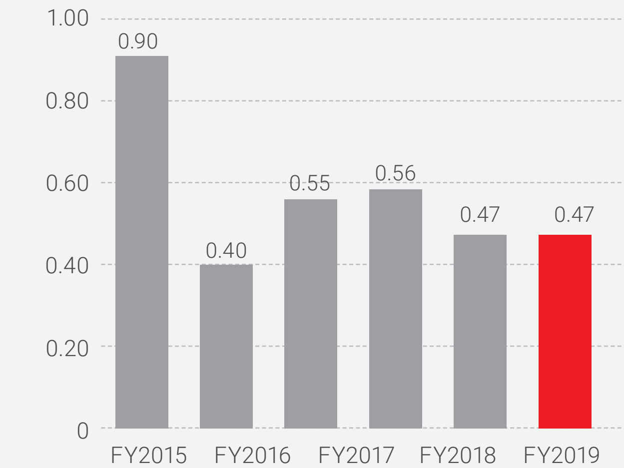
- **The lost time injury frequency rate (LTIFR) of 0.00 achieved an improvement from the prior year rate of 0.36**
- **The minor injury frequency rate (MIFR) of 0.25 achieved (FY2019: 0.56)**
- **No fatalities were recorded in FY2020**

LTIFR



Number of lost-time injuries for the past 12 months is 0.00 for 200 000 hours worked.

MIFR



Number of minor injuries for the past 12 months is 0.25 for 200 000 hours worked.

RESPONSIBLE CORPORATE CITIZENSHIP

Responsible corporate citizenship is more than a compliance requirement; it is fundamental to the SABS' objectives. The SABS recognises that there are inseparable linkages between its sustainable growth, its relationships with key stakeholders and its contribution to society in the broader context.

Conducting business in a responsible manner

The SABS' Code of Ethics encapsulates the organisation's inherent approach of conducting business ethically, with integrity and with a commercial wisdom which strives to enhance the economic and social well-being of its employees, customers and business partners.

Engaging stakeholders

The SABS is committed to adopting a stakeholder-inclusive governance approach and sustaining strong relationships with its stakeholders through transparency and effective communication. The approach to stakeholder engagement is set out on pages 13 and 14 of this report.

Corporate governance

The SABS operates on an established foundation of strong corporate governance. More can be read about this in the corporate governance report set out on pages 49 to 52 of this report.

Ethics management, anti-bribery and corruption

The SABS is committed to zero tolerance of any fraudulent and unethical behaviour. Its fraud policy, fraud prevention plan and code of ethics policy are effectively implemented. For the reporting period the anti-corruption and fraud prevention policy was reviewed and the following initiatives established:

- Ethics management framework
- A minimum anti-corruption capability assessment
- Fraud and corruption risk assessments
- The anti-corruption and fraud prevention plan
- Status reports on anti-corruption and fraud management initiatives which were presented to the audit and risk committee and the social and ethics committee

To promote a culture of whistle-blowing, an independent external service provider independently manages the SABS whistle-blowing hotline. Logged calls are then managed by Internal Audit Services and anonymity of whistle-blowers is guaranteed.

All reasonable suspicions of fraud, corruption, maladministration and unethical behaviour are verified and investigated, and appropriate action is taken, including but not limited to:

- Consequence management procedures
- Referrals to relevant agencies
- Institution of criminal proceedings
- Civil litigation
- Recovery of losses

The acceptance of gifts and benefits is covered in the SABS' fraud prevention plan that sets the framework of levels of employees, including Board members, whom are prohibited from accepting or giving gifts or hospitality that are of a nominal value or participating in events sponsored by current or prospective customers or suppliers.

Managing conflict of interest

Conflict of interest of employees in performance of services of the SABS

When joining the organisation, all employees commit to avoiding conflicts of interest, by signing the conditions of employment. All employees are required to annually submit a declaration of interest form to allow the company, through line management, to assess any conflict of interest.

Additionally, the services of the organisation are delivered through processes that allow complaints by external and internal stakeholders and appeals to higher authority in the organisation. The following key services have reinforced SABS' protocols to minimise employees' conflicts of interest:

- Internal audit services
- Zero tolerance to fraud and corruption
- Encouraging whistle blowing with the implementation of a no-charge Fraud Line available at 0800 00 7112. In addition a fax line, email and website options are also available to report fraud and corruption.

Internal Audit Services

The Internal Audit Services (IAS) department is an independent and objective assurance provider. It provides reasonable assurance over the effectiveness of the internal controls, risk management, compliance management and governance. The internal audit services delivers on its mandate, with a risk-based approach forming the basis of its methodology. All audit activities are performed in conformance with the international standards for the professional practice of internal auditing as provided by the Institute of Internal Auditors (IIA).

The IAS operates in accordance with its charter, approved by the Audit and Risk committee. The Internal Audit Services are sufficiently skilled and supported by those charged with governance (TCWG) to deliver on its mandate. To remain an objective and independent assurance provider, the head of IAS reports administratively to the CEO and functionally to the Audit and Risk committee.

An effective quality assurance programme is in place to ensure that the Internal Audit Services provides its service in accordance with the IIA standards and the internal audit code of ethics. The programme includes both internal and external evaluations, which assess the effectiveness and efficiency of the internal audit activity, and identifies opportunities for improvement, which are implemented and monitored by the head of internal audit services. The internal auditors in the Internal Audit Services department maintain their membership with the IIA of South Africa, which is affiliated to the international body.

The risk-based internal audit plan focused on the following focal points, which are fundamental to the SABS as required by Treasury regulation 27.2:

- Information technology system environment
- Reliability and integrity of financial and operational performance information
- Effectiveness of operations and performance of the SABS
- Adequacy of safeguarding of the SABS assets in compliance with relevant laws and regulations

The IAS' effective stakeholder management ensured efficiencies in the internal audit activities. Some of the assurance gaps and duplications by the SABS assurance providers were addressed through integrated assurance (combined assurance) activities by the internal audit services and external auditors. For more about the combined assurance model, refer to page I.

Respecting human rights

The SABS is committed to upholding the principles of respecting and protecting internationally proclaimed human rights, as well as ensuring that the SABS is not complicit in human rights abuses. The SABS code of ethics details the organisation's commitment to fundamental human rights and the social and ethics committee monitors the effectiveness of ethics management in the SABS.

No businesses in the SABS are deemed to be at risk of violating human rights which protect child labour, forced or compulsory labour.

During the year, no incidents of discrimination, forced labour or compulsory labour were reported (FY2020)

Legal compliance

Lawful compliance and respect for the rule of law underpins an ordered and effective society. The SABS and its employees are committed to complying with the applicable legal and regulatory requirements wherever it does business. The legal and compliance officers are responsible for the implementation of an effective legislative compliance framework and provide the Board with assurance that the SABS is compliant with applicable laws and regulations.

No material incidents of legislative infringements were recorded in the year

Supporting transformation through supply chain

The SABS considers suppliers to be vital partners in the business and strives to develop close working relationships with them – not only to ensure seamless value delivery throughout the supply chain, but also to support those suppliers in sustainably growing their own businesses. Key to SABS' transformation commitment is the responsibility to ensure that SABS' suppliers are owned by representatives of historically disadvantaged groups are enabled and empowered to develop and grow their businesses by being part of the SABS supply chain management.

Total procurement spend: R180.1 million

Spent R64.4 million with EME and QSE

Environment

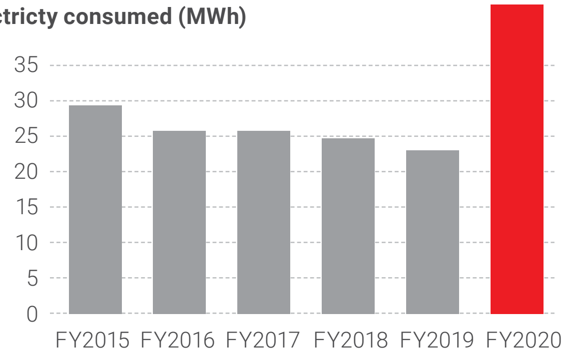
The SABS' principle exposure to natural capital is through its head office operations in Pretoria as well as the testing facilities across the country. Environmental considerations are founded in the SABS environmental policy.

Energy

The organisation focuses on reducing its consumption of energy, mainly in the form of electricity, and have implemented a range of initiatives to reduce consumption.

Energy consumption increased by 12,5% from 23.5 MWh in FY2019 to 36 MWh in FY2020.

Electricty consumed (MWh)



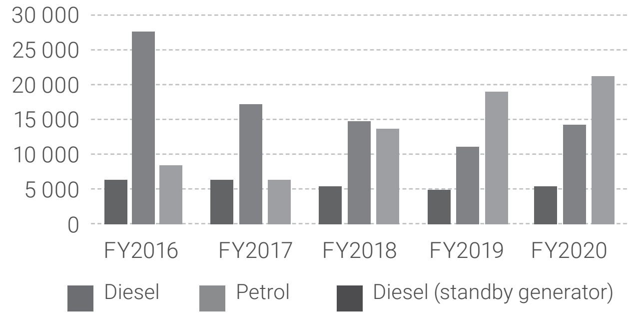
Measured at SABS Groenkloof campus

Fuel

During the period under review vehicles consumed 5 110 litres (FY2019: 5 112 litres) of diesel and 14 537 litres (FY2019: 14 530 litres) of petrol.

Diesel used in the generators increased significantly from 18 306 litres in FY2019 to 21 000 litres in FY2020 due to an increase in power outages at the Groenkloof campus.

Fuel consumed (litres)

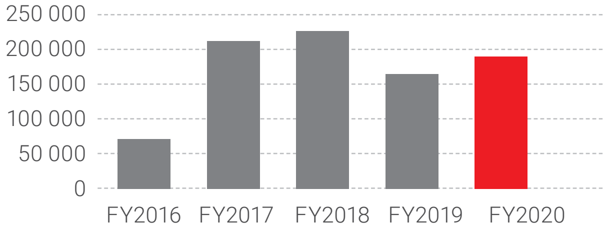


Water

The SABS is committed to being a responsible custodian of water by measuring, monitoring, managing and reporting its water use as standard business practice and, where possible, proactively implementing initiatives to conserve water. The SABS recognises that water is an increasingly scarce and critical global resource. It also supports various projects that enhance the capacity of the population to adapt to water scarcity, as well as water management solutions. During FY2020, water consumption increased by 12%, from 168 313 kilolitres to 189 324 kilolitres

Water consumed (kilolitres)

Water usage increased by **12%** to **189 324 kl**



The increase between FY2016 and FY2017 was due to incorrect meter readings by the city council. This was corrected during FY2017.

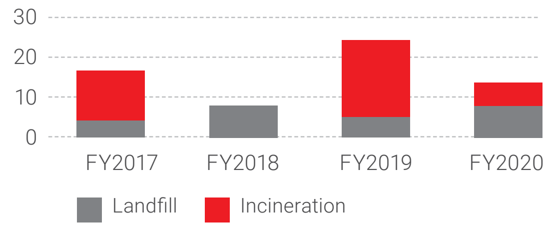
Waste management

With the variety of SABS processes and activities, the organisation generates substantial amounts of hazardous and non-hazardous waste. To mitigate the risk to the environment and society, the SABS has implemented a waste management programme. Waste is collected, separated, stored, transported, recycled and/or disposed of using environmentally responsible and legally complaint methods.

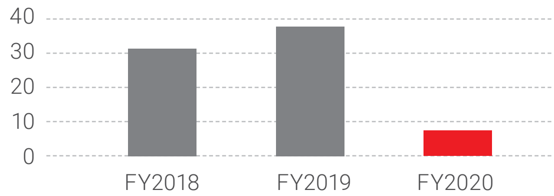
145 tonnes of **waste generated** in FY2020

No significant spillages or waste management incidents recorded in the year

Hazardous waste management (tonnes)



Non-hazardous waste recycled (tonnes)



GROUP FINANCE OVERVIEW

The 2020 financial year proved to be a challenging year for the SABS as management continued to implement and intensify a range of initiatives focused on revenue from conformity assessment services, reducing operating costs and investment in the maintenance and upgrade of key infrastructure whilst seeking to manage the balance sheet.

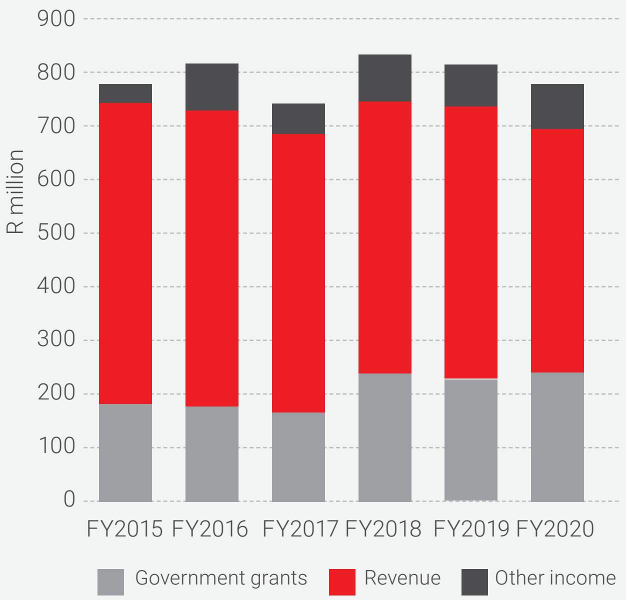
Financial performance

Total income

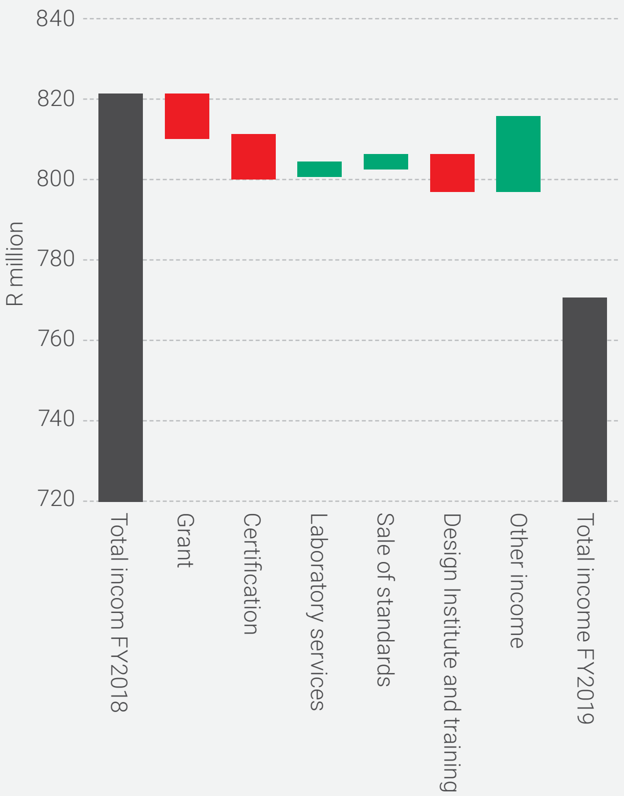
Total income for the year was down by 5.5% to R771.0 million (FY2019 restated: R816.1 million). The Group received a government grant from **the dtic** of R245.6 million for the year. Revenue from conformity assessment services, comprising of certification, laboratory services and training, declined by R61.1 million to R 412.4 million (FY2019: R473.6 million). Revenue from conformity assessment services declined as a result of a loss of customers due to cancellations, which arose due to customers experiencing financial difficulties as well as standards that were withdrawn). Further to this, the Laboratory services division was impacted by lower sample volumes. Revenue from Standard Sales of R31.6 million grew by R0.4 million (FY 2019 restated: R31.2 million). Other income increased mainly due to income recognised in local content and foreign exchange gains recognised.

For more on the operational performance for each of the operating units refer to pages 25 to 33.

Total income



Movement in total income

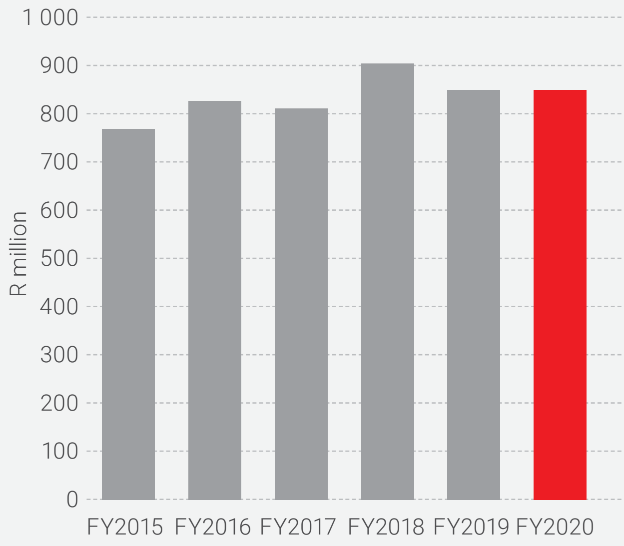


Operating expenditure

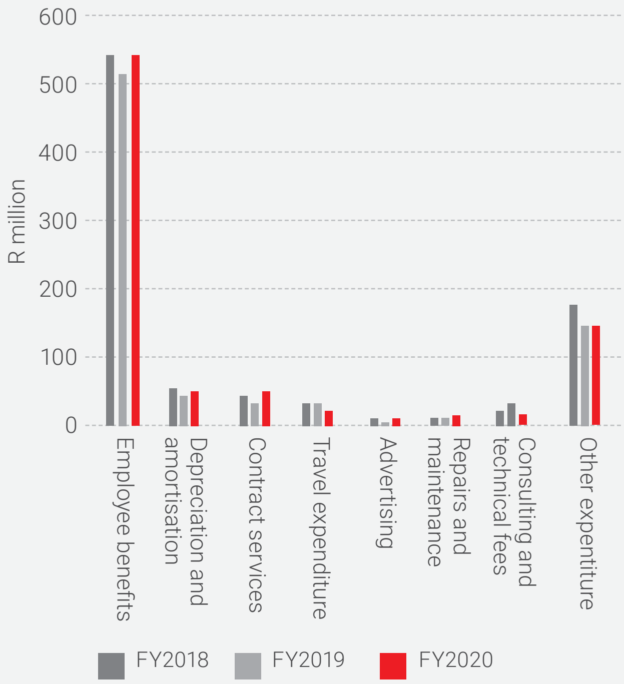
The SABS continued to manage its operational expenditure. Total expenditure (including depreciation and amortisation) increased by 3.8% to R881.2 million (FY 2019 restated: 847.4 million). The reason for the spike in operational expenditure in FY 2020 is due to the implementation of IFRS 16, which resulted in depreciation increasing by R6.8 million.

Employee benefit expenditure is the SABS' largest expense, comprising 62.7% or R552.4 million of total expenditure (FY 2019: 60.9% or R516.4 million).

Total operating expenditure



Breakdown of operating expenditure



Net investment income

The SABS earns interest on bank accounts, money market investments, short-term deposits and available-for-sale investments. In the year the SABS received interest income of R50.9 million (FY 2019: R30.1 million).

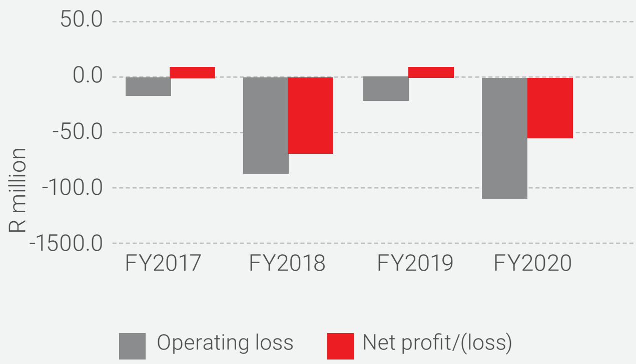
Finance costs on lease liabilities, banking facilities and late payments amount to R2.3 million (FY 2019: R0.05 million).

Operating loss and net loss

The SABS Group's operating loss before net interest income increased by 251% to R110.2 million compared to a restated operating loss of R31.3 million in the previous financial year.

Taking into account the net interest received of R48.6 million (FY 2019: R30.1 million), the SABS Group recorded a net loss of R61.6 million for the year (FY 2019 restated: R1.2 million).

Operating loss and net loss



Financial position

Total assets grew by 1.3% to R1.5 billion (FY2019 restated: R1.49 billion). Non-current assets were down by 20.4% to R0.82 billion from R1.03 billion in FY2019.

Movement in property, plant and equipment as well as intangible assets

Capital expenditure, including intangible assets, for the year was R40.8 million (FY2019: R24.7 million). Investments into new laboratory equipment and ICT equipment were in line with the renewal strategy of the Group.

Depreciation and amortisation totalled R50.4 million (FY2019 restated: R43.1 million).

Investments at fair value through profit and loss

Financial assets previously classified as available for sale investments were reclassified as financial assets measured at fair value through profit and loss in line with IFRS 9 which was implemented in FY 2019. These investments are held in various diversified portfolios and are intended to create a base plan asset to cover post-employment medical benefits.

During the year, financial assets decreased by R212.1 million to R100.5 million, mainly due to the disposal of financial assets in the year.

Working capital

Current assets increased from R461.8 million in the prior year to R686.3 million, mainly as a result of increase in cash and equivalents (up R272.7 million due to the disposal of financial assets).

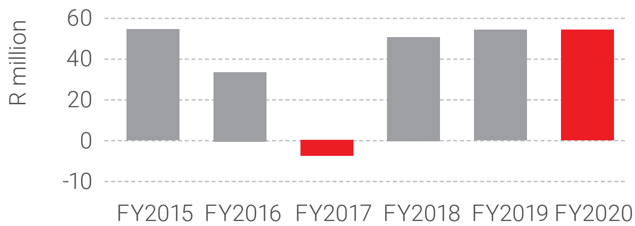
Current liabilities decreased by 24.9% to R214.5 million.

Overall the current ratio has improved marginally to 3.2 (FY 2019: 1.6).

Cash and cash equivalents

Cash flow generated from operations totalled R26.8 million (FY 2019: R36.7 million cash utilised). At year- end the SABS' cash and cash equivalents totalled R531.9 million (FY 2019: R259.2 million).

Cash flow from operating activities



Post-employment healthcare benefits

The Group provides post-employment medical aid contribution subsidies to qualifying retirees. Employees who meet set criteria (detailed in note 22 of the annual financial statements) are also entitled to this benefit when they retire. Actuaries have determined the expected liability. The post-employment healthcare benefit obligation was R73.8 million (FY2019: R78.2 million) at 31 March 2020.

The funding of the liability is being managed through the investments held at fair value through profit and loss.

Borrowings

The SABS has no outstanding borrowings.

Change in accounting policies

In the current year, the SABS has applied the following accounting policies:

- IFRS 16 Leases (as revised in 10). IFRS 16 replaces IAS 17. The Group as adopted the standard for the first time in 2020 using the modified retrospective method of adoption with an initial application date of 1 April 2019.

Prior-year adjustments

Various prior year adjustments were effected in the year which reduced the net loss for the 2019 financial year from R4.4 million to R1.2 million. Refer to note 37 of the financial statements for more detail.

Post balance sheet events

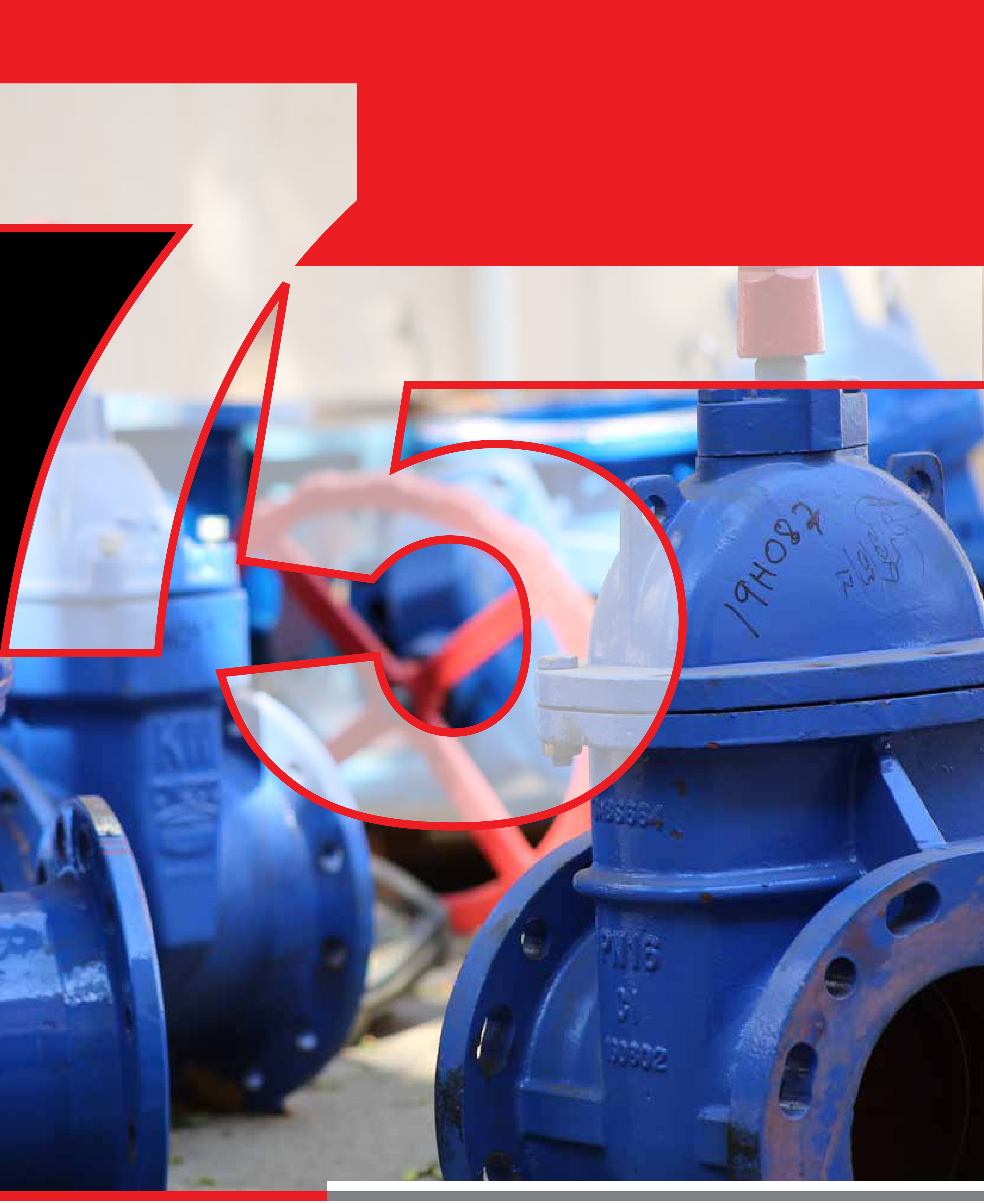
There were no significant adjusting matters, post year-end that was identified. The impact of Covid-19 on the SABS is a non-adjusting event and has been disclosed in note 34 of the financial statements.

SEVEN-YEAR PERFORMANCE OVERVIEW

	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
		R'm	R'm	R'm	R'm	R'm	R'm
			Restated	Restated			
Income statement							
Revenue	444.8	506.5	514.4	500.9	544.7	557.3	516.8
Parliamentary grant recognised as income	245.6	232.5	243.2	183.2	189.7	193.1	179.8
Expenditure	881.2	847.4	901.3	811.3	818.8	775.5	741.2
Net loss on discontinued operations	-	-	-	-	-	-	-
Operating (loss)/profit	(110.2)	(31.3)	(79.5)	(74.5)	(3.1)	10	(1.8)
Net investment income	48.6	30.1	29.1	30.1	25.4	22.7	23.2
Profit/(loss) for the year	(61.6)	(1.2)	(70.7)	(44.4)	22.4	32.2	21.7
Statement of financial position							
Property, plant and equipment	686.3	687.7	713.4	750.5	709.8	365	345.5
Investment properties	7.5	7.7	7.9	8.4	8.8	9.2	9.6
Intangibles	13.4	20.1	24.4	27.8	13.6	11.7	14.8
Investments at fair value	100.5	312.6	430.5	427.3	407.2	395.9	305.1
Right-of-use assets	15.7						
Non-current assets/disposal group held for sale	-	-	-	19.8	20.3	20.4	20.9
Current assets excluding cash	154.3	202.6	167.1	148.8	140.9	139.2	119.6
Net cash and cash equivalents	531.9	259.2	126.0	91.9	162.8	200.1	283.5
Total assets	1 509.8	1 489.9	1 469.3	1 474.6	1 463.4	1 141.4	1 098.9
Capital and reserves	831.2	887.1	882.5	927.8	940.6	615.6	560.9
Other non-current liabilities	463.9	317.0	341.1	375.5	365.3	377.1	386.3
Current liabilities	214.5	285.7	245.6	171.3	157.5	148.6	151.8
Total equity and liabilities	1 509.8	1 489.8	1 469.2	1 474.6	1 463.4	1 141.4	1 098.9

	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
		R'm	R'm	R'm	R'm	R'm	R'm
Cash flows							
Net cash flow from operating activities	26.8	(36.7)	32.1	(12.5)	33.0	51.4	21.4
Net cash flow from investing activities	251.9	169.8	1.9	(64.0)	(70.4)	(137.5)	(12.3)
Net cash flow from financing activities	(6.0)	-	-	5.6	-	2.8	-
Cash and cash equivalents at beginning of year	259.2	126.0	91.9	162.8	200.1	283.5	274.3
Cash and cash equivalents at end of year	531.9	259.2	126.0	91.9	162.8	200.1	283.5
Ratio analysis Profitability and asset management							
Asset turnover	0.4	0.4	0.4	0.4	0.4	0.6	0.5
Return on net assets	(11.2%)	(2.5%)	(5.9%)	(5.4%)	(0.2%)	1.1%	(0.2%)
Return on equity	(13.2%)	(3.5%)	(9.0%)	(8.0%)	(0.3%)	1.6%	(0.3%)
Current ratio	3.2	1.6	1.2	1.4	1.9	2.3	2.7
Operating margin %	(24.7%)	(6.2%)	(15.5%)	(14.9%)	(0.6%)	1.8%	(0.3%)
Revenue % to total income	64.4%	68.5%	67.9%	73.2%	74.20%	74.30%	74.20%
Performance							
Number of employees at year-end	856	877	922	973	918	875	828
Commercial revenue per employee	520	578	558	515	593	637	624
Cost per employee	1 029	966	978	834	892	886	895
Operating profit per employee	128.8	(35.7)	(86.2)	(76.6)	(3.4)	11.4	(2.2)
Remuneration as a % of total expenditure	62.7%	60.9%	61.2%	64.8%	61.1%	60.8%	58.6%

Ratio definitions	
Asset turnover:	Revenue divided by assets less current liabilities
Return on net assets:	Operating profit as a percentage of net assets excluding cash resources
Current ratio:	Current assets to current liabilities
Operating margin %:	Operating profit as a percentage of revenue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GOVERNANCE

GOVERNANCE REPORT

Good corporate governance is paramount to the success of the SABS, and to protect and advance the interests of the country and its citizenry.

The SABS exists as a public entity in terms of the Standards Act, No. 8 of 2008 (the "Act"), under the Executive Authority of the Minister of Trade, Industry and Competition (**the dtic**). In accordance with the Act, the Board of the SABS is appointed by the Executive Authority (i.e. the Minister of **the dtic**). The Act also makes provision for the appointment of the Chief Executive Officer of the SABS. In order to achieve its objectives, the SABS may perform, in so far as it is not inconsistent with the provisions of any Act of Parliament or regulation, such functions as the Minister may assign to the SABS. The SABS Commercial SOC Limited is a wholly-owned subsidiary of the SABS which houses the SABS' conformity assessment services business.

Accounting Authority

In June 2018 the then Minister placed the SABS under the control of administrators. The Minister designated three co-administrators as the Accounting Authority of the SABS for the period 2 July 2018 to 31 January 2019. This period was subsequently extended to 31 October 2019 and then extended until the appointment of a board. The co-administrators were charged with producing a diagnostic report and turnaround action plan for the SABS. Following the resignation of Mr Garth Strachan, Ms Jodi Scholtz was appointed as the Lead-Administrator.

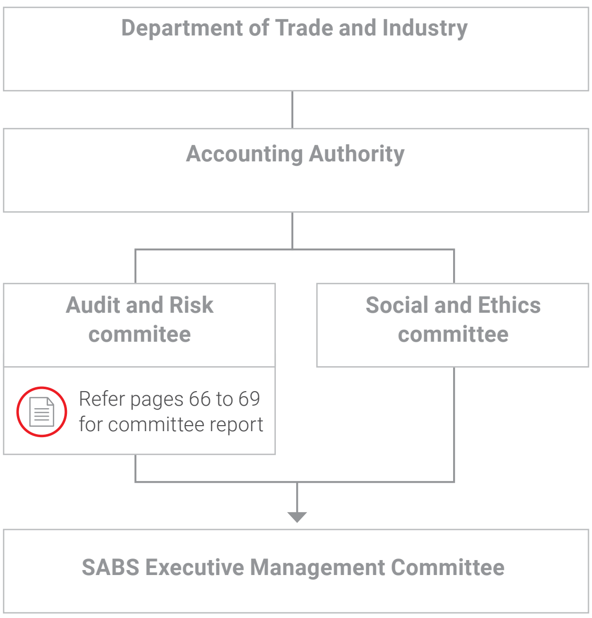
Until such time as the appointment of a new board, the co-administrators have taken responsibility to provide effective oversight and stewardship in line with leading governance practices, ensuring that the SABS delivers on its fiduciary duties, is transparent and accountable and delivers on its legal and statutory mandate and provide regular reports to **the dtic** on progress made with the turnaround strategy.

The co-administrators also established an Interim Audit and Risk Committee (ARC) to undertake the necessary audit functions as set out in the law. In addition, a Social and Ethics Committee, which met for the first time after year-end, was established. It is envisaged that all other Board committees will be established once a Board has been appointed. The composition of the Accounting Authority reflects the appropriate mix of knowledge, skills, experience, diversity and independence to execute its roles and responsibilities.

Interim Audit and Risk Committee

At year-end, the Interim Audit and Risk Committee comprised of two co-opted independent non-executive members, one non-executive member and the Lead Administrator. All members have the requisite financial skills and experience to fulfil the Committee's duties. The Committee's mandate is, amongst others, to review the effectiveness of internal controls, ensure satisfactory standards of governance and compliance, and maintain oversight of financial results and integrated reporting.

SABS Governance Framework



Governance policies and procedures in place

Leadership, ethics and good corporate citizenship

- Shareholder's Compact
- Board charter
- Code of ethics
- Conflict of interest policy
- Anti-corruption and fraud prevention policy
- Safety, health and environmental policy
- Annual declaration of outside interest policy

Strategy, performance and reporting

- Annual submission of the SABS Corporate Plan
- Planning and Reporting framework

Governance functional

- Sub-committee terms of reference
- Remuneration policies
- Performance management frameworks
- Internal audit policy

Stakeholder relationships

- Annual engagement plan for key stakeholders

Co-administrators

Jodi Scholtz (47)
Lead-Administrator

Current position:
Chief Operating Officer at **the dtic**

Qualification:
MBA

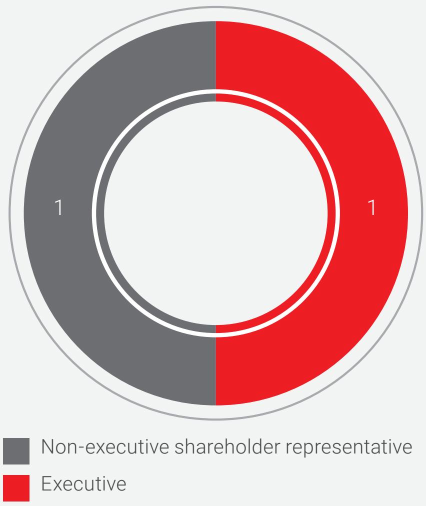
Areas of expertise:
Strategy, operations, risk management and governance

Dr Tshenge Demana (59)
Co-administrator

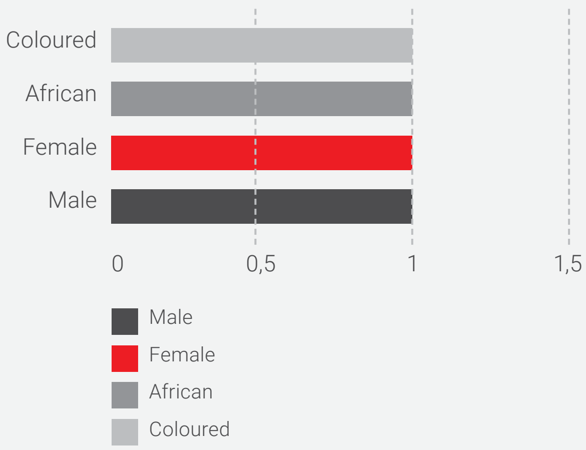
Current position:
Chief Director, Technical Infrastructure Institutions at **the dtic**

Qualification:
PhD (Chemistry)
Areas of expertise: Quality management and laboratory services

Accounting Authority mix



Demographics



Shareholder linkage

The SABS is wholly owned by the South African Government. The SABS is regulated in terms of the Standards Act, the PFMA and its accompanying Treasury Regulations. It is classified as a Schedule 3B public entity under the PFMA.

The Minister of the Department of **the dtic**, as the Executive Authority holds the Accounting Authority accountable for managing the SABS to deliver on this mandate. During the year, the Accounting Authority as a whole met regularly with **the dtic** which provided an opportunity for the Shareholder and the co-administrators to engage on strategic and operational matters.

In line with section 52 of the PFMA, the SABS submits a Shareholder's Compact and Corporate Plan to the Department of Trade, Industry and Competition at the end of January of each year. This serves as an agreement between the SABS and the Shareholder, and documents the key performance measures and targets against which organisational performance is assessed. The Corporate Plan is also submitted to the National Treasury. The SABS' Accounting Authority reports on performance and related matters to the Shareholder by way of quarterly and annual reports.

Board or Co-administrator attendance to meetings during the 2020 financial year

Five meetings were held during the financial-year. The table below reflects each member's attendance at the meetings.

Members	Meeting date 30 April 2019	Meeting date 06 June 2019	Meeting date 30 July 2019	Meeting date 11 December 2019	Meeting date 29 January 2020	Number of meetings: 5
NON-EXECUTIVE MEMBERS						
Jodi Scholtz (Lead-Administrator)	✔	✔	✔	✔	✔	5
Dr Tshenge Demana (Co-Administrator)	A	✔	✔	✔	✔	4
EXECUTIVE MEMBERS						
Garth Strachan (Acting CEO)	✔	✔	✔	✔	✔	5

✔ – Attended
A – Absent with apology
TEL – Participated via teleconference
N/A – Not a Board member or co-administrator

Member independence and conflicts

Members are required to declare all their direct and indirect material interests that may exist as a result of their association with any other company annually. As soon as an individual becomes aware of any conflict of interest, he or she is required to disclose such conflict and to recuse themselves from the discussions. The individual is precluded from voting on conflicted matters. The Company Secretary maintains a register of members' interests. In addition, each agenda of meetings contains an item for declaration of interests.

Members are encouraged to seek independent advice, at cost to the SABS, during the execution of their fiduciary duties and responsibilities, if so needed. During the financial year, no independent advice was sought by the Accounting Authority. Members also have, at all times, direct access to the SABS' internal and external auditors, the Company Secretary, the SABS' internal support services and all members of the executive management.

Board and committee evaluations

As the SABS was placed under administration, no Board or committee evaluation was conducted.

Other governance matters

Company Secretary

Mr Joseph Leotlela, the Group Manager: Legal services, has served as the Acting Company Secretary of the SABS. The Company Secretary's primary role is to ensure that the Accounting Authority is cognisant and aware of its fiduciary duties and responsibilities as well as keep them aware of relevant changes in legislation and governance best practice. Other key performance areas of the Company Secretary include overseeing the induction of new members as well as the ongoing education of members. The Company Secretary also provides similar support to the various sub-committees. The Accounting Authority has unfettered access to the services of the Company Secretary.

The Accounting Authority confirms that the Company Secretary:

- Is not a member of the Accounting Authority and is not related to any of the members
- Is independent from management and does not have executive duties and responsibilities, aside from the core responsibilities of a Company Secretary and as Head of Legal Services.

REMUNERATION REPORT

The SABS acknowledges that its ultimate source of value to the organisation's productivity and profitability is its valuable employees who contribute to the achievement of the business objectives.

Through the SABS' remuneration policy, the SABS seeks to:

- Reward employees equitably for their contracted work outputs
- Make recommendation into the SABS human capital strategy
- Design, motivate and reward performance
- Encourage the development of skills and competencies required to meet future needs
- Retain and attract high quality individuals with the optimum mix of skills, competencies and values
- Secure commitment of people to the SABS' goals and purposes through the optimum mix of financial and non-financial rewards.

Employee remuneration

The SABS is committed to attracting, motivating, managing and retaining talented employees of the highest calibre through the payment of fair, appropriately structured and competitive remuneration. The SABS recognises a mix of both competencies and performance in its remuneration structure.

The remuneration packages for employees are divided into fixed and variable components, including short-term performance incentives as well as additional benefits for bargaining unit employees.

Remuneration element	Description
Guaranteed pay	Inclusive of benefits (for eligible participants) such as pension fund savings, group life and disability cover, as well as contributions to company approved medical schemes
Variable pay	Eligible permanent employees in the bargaining unit are paid a 13th cheque – in accordance with the prevailing wage agreement concluded during the 2016/17 financial year. Performance bonuses are designed to encourage, recognise and reward performance and are therefore linked to company and individual performance objective outcomes. Performance bonuses are paid in arrears, i.e. performance bonuses paid in 2017/18 were for the financial year 2016/17. **Performance bonus policy** The employee level along with two or three performance milestones determine performance bonus outcomes. Performance milestones include the SABS Group performance target, divisional objective measures, and individual performance scores. A minimum performance score of 3 out of 5 must be realised for an employee to be eligible for a pay-out The maximum performance bonus payable on guaranteed annual salary are as follows: • CEO (P1): 45% • Executives (P2-3): 35% • Group/general managers (P4): 25% • Management and specialists levels (P5–7): 20% No bonuses were paid out for the period under review
Additional benefits to bargaining unit employees	Bargaining unit employees refer to employees occupying grade levels P8-18. In accordance with the wage agreement, these categories of employees (where eligible) received additional benefits, including a medical aid subsidy and housing allowance.

The Accounting Authority reviews the Chief Executive Officer remuneration and makes recommendations to the Minister of Trade Industry and Competition for consideration.

Details of remuneration earned by the Chief Executive Officer and Executive Management team are reflected in note 30 to the annual financial statements

Co-administrators and Board remuneration

Co-administrators

The SABS was placed under administration by the Minister of **the dtic** in 2018 and the three co-administrators appointed. Mr Garth Strachan was appointed as the acting Chief Executive Officer and is deemed a salaried employee of the SABS. The remaining two co-administrators are employees of **the dtic** and are not entitled to additional remuneration.

Board

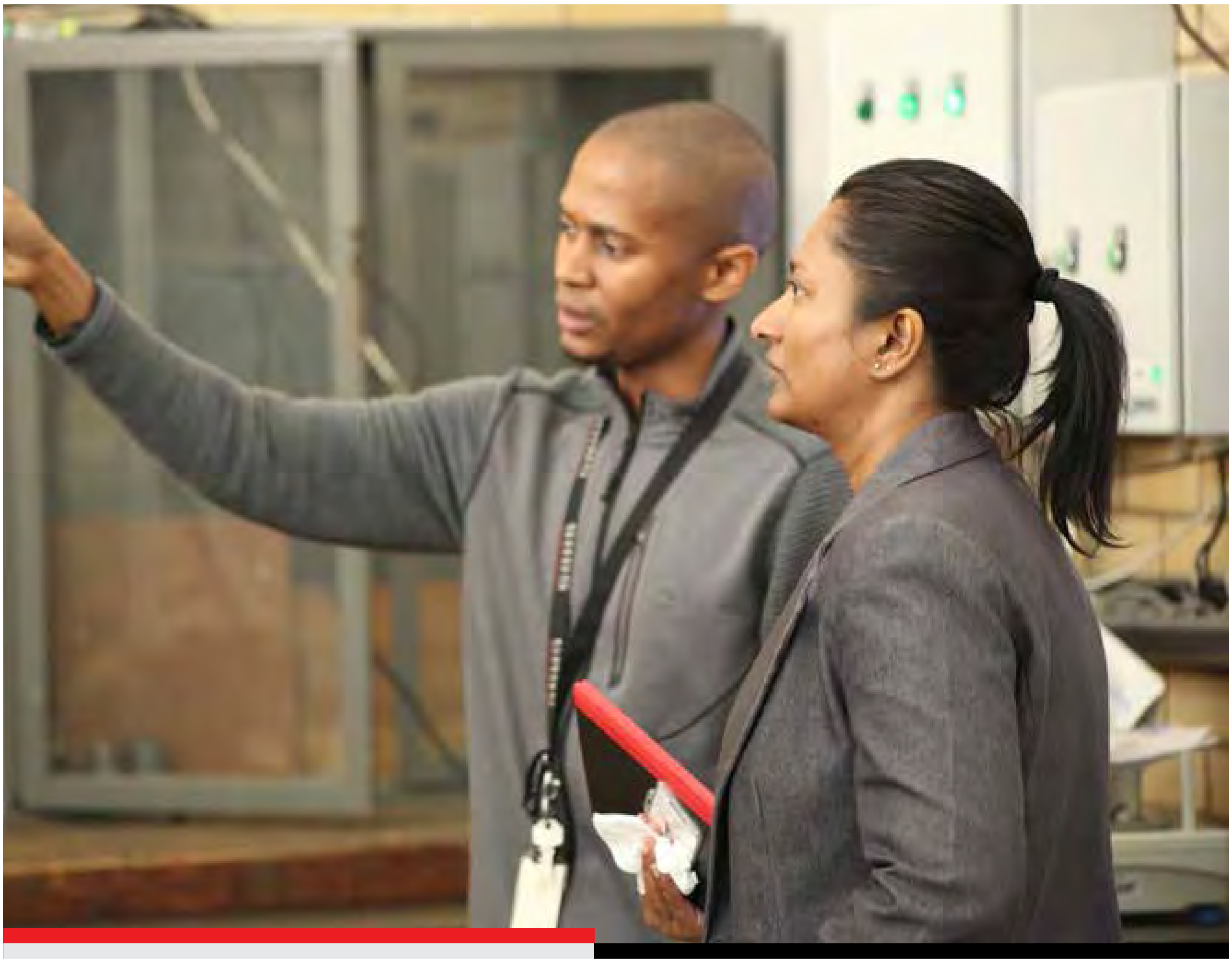
The SABS compensates and remunerates non-executive Board members in a manner which enables it to attract and retain high-calibre and professional Board members to ensure that the Board has, at all times, the necessary skills required to execute on its mandate.

Non-executive members are remunerated according to their scope of responsibility and contribution to the SABS' operating and financial performance, taking into account industry norms, including the State-Owned Enterprise Remuneration Guidelines as well as the external market and benchmarks. Non-executive members receive fees according to their attendance at meetings. Non-executive members are not entitled to receive short-term incentives. Board members are compensated for expenses incurred in pursuance of the SABS' business.

The Remuneration Committee reviews the non-executive members' fees and makes recommendations to the Board and the Minister of **the dtic** for consideration and approval.

No related party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board committee meetings.

Details of fees earned by the non-executive members are reflected in note 30,5 to the annual financial statements.

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ANNUAL FINANCIAL STATEMENTS

CONFIRMATION OF ACCURACY AND FAIR PRESENTATION

INTEGRATED ANNUAL REPORT AND ANNUAL FINANCIAL STATEMENTS
For the financial year ended 31 March 2020

I hereby acknowledge that the Integrated Annual Report and the Annual Financial Statement of the South African Bureau of Standards (SABS) has been submitted to the Auditor-General for auditing in terms section 55(1)(c) of the PFMA.

I acknowledge my responsibility for the accuracy of the accounting records and the fair presentation of the Annual Financial Statements and confirm, to the best of my knowledge, the following:

Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Public Finance Management Act and International Financial Reporting Standards (IFRS). All amounts and information in the Integrated Annual Report and Annual Financial Statements are consistent with the Annual Financial Statements submitted to the auditors for audit purposes.

Performance information

The performance information fairly reflects the operations, and actual output against planned targets for performance indicators as per the corporate plan of the SABS and approved amendments for the financial year ended 31 March 2020. The performance information has been reported on in accordance with the requirements of the guidelines on annual reports as issued by National Treasury. A system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of performance information.

Human resource management

The human resource information contained in the respective tables in the Integrated Annual Report fairly reflects the information of the SABS for the financial year ended 31 March 2020.

In respect of material issues

The Integrated Annual Report is complete, accurate and free from any omissions.

Preparation of the Annual Financial Statements

The financial results have been prepared under the supervision of Tina Maharaj CA (SA), the Chief Financial Officer of the SABS.

Jodi Scholtz
Lead Administrator

STATEMENT OF RESPONSIBILITY OF THE ACCOUNTING AUTHORITY

For the year ended 31 March 2020

To the best of our knowledge and belief, we confirm the following:

All information and amounts disclosed in this Integrated Annual Report are materially consistent with the Annual Financial Statements audited by the Auditor-General. The report is complete, accurate and free of material omissions.

The Integrated Annual Report has been prepared in accordance with the guidelines as issued by National Treasury and the Annual Financial Statements, from pages 73 to 142 were prepared in accordance with the PFMA and IFRS.

The going concern basis has been adopted in preparing the Annual Financial Statements. The Accounting Authority has a reasonable expectation that the organisation will have adequate resources to continue its operations as a going concern for the foreseeable future.

The Lead-administrator, as the Accounting Authority, is responsible for the preparation of the Annual Financial Statements and for the judgments made in this information. The Accounting Authority, represented by the co-administrators, is responsible and accountable for the integrity of the Annual Financial Statements of the organisation and the objectivity of other information presented in the Integrated Annual Report.

Management and employees operate within a framework requiring compliance with all applicable laws and maintenance of the highest integrity in the conduct of all meetings of the Accounting Authority.

The Auditor-General is engaged to express an independent opinion on the Annual Financial Statements. Their report is presented on page 58.

In our opinion, the Integrated Annual Report and Annual Financial Statements fairly reflect the operations, performance information, human capital information and financial affairs of the SABS for the financial year ended 31 March 2020.

Jodi Scholtz
Lead Administrator

Dr T Demana
Co-Administrator

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN BUREAU OF STANDARDS

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the South African Bureau of Standards and its subsidiaries (the group) set out on pages 73 to 142, which comprise the consolidated and separate statement of financial position as at 31 March 2020, consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the South African Bureau of Standards as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated financial statements section of this auditor's report.

4. I am independent of the public entity in accordance with sections 290 and 291 of the *Code of ethics for professional accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes), as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

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

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

An uncertainty relating to the future outcome of litigation

7. With reference to note 31 to the financial statements, the public entity is the defendant in an employment dispute raised by 119 managers at various levels within the SABS. The public entity is opposing the matter as it believes that there are reasonable prospects of successfully defending this matter. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Subsequent events

8. I also draw attention to note 34 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of Covid-19 on the public entity's future prospects and financial performance. The financial impact of the events described in the note cannot be reliably measured at this stage.

Prior period errors

9. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2019 were restated as a result of errors in the financial statements of the group at, and for the year ended, 31 March 2020.

Responsibilities of the accounting authority for the financial statements

10. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

11. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE AUDITOR-GENERAL (continued)

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

12. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

13. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

15. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators / measures included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the public entity for the year ended 31 March 2020:

Strategic objectives	Pages in the annual performance report
Strategic objective 1: develop, promote and increase the use of standards	page 63

17. I did not identify any material findings on the usefulness and reliability of the reported performance information.

Other matter

18. I draw attention to the matter below.

Achievement of planned targets

19. Refer to the annual performance report on pages 62 - 65 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

21. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual report

22. 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.

23. Material misstatements of intercompany loan, investment in subsidiaries, capital work-in-progress, deferred income and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

24. The shareholder's compact did not include the mandated key performance measures and/or indicators as agreed between the accounting authority and the executive authority, as required by treasury regulation 29.2.2.

Other information

25. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

26. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

28. I have not yet read the other information received prior to this audit report. When I do read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

29. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

30. Management did not ensure that adequate controls were implemented to prepare accurate financial statements that agree with the supporting schedules and are presented in line with the reporting standards.

31. Management did not adequately monitor compliance with certain requirements of the PFMA and its regulations

Other reports

32. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

33. An agreed-upon procedures engagement was performed on royalties payable by the South African Bureau of Standards for the period under review. The procedures were performed solely to assist the public entity in evaluating the reasonableness of the royalties payable and to enable the authorised dealer to determine whether the royalties can be remitted in terms of the current exchange control permission held by them. The report covered the period 1 January 2019 to 31 December 2019, and was issued to the accounting authority on 25 June 2020.

Auditor- General

Pretoria
02 October 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected strategic objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
    - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
    - obtain an understanding of internal control relevant to the audit 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 public entity's internal control
    - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
    - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the South African Bureau of Standards and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
    - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
    - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

ACCOUNTING AUTHORITY REPORT

For the year ended 31 March 2020

Introduction

The SABS was established as a statutory body in terms of the Standards Act, 1945 (Act No. 24 of 1945), which was superseded by the Standards Act, 1993 (Act No. 29 of 1993) and subsequently superseded by the Standards Act, 2008 (Act No. 8 of 2008). In terms of the new Act, the objectives of the SABS are to:

- Develop, promote and maintain South African National Standards that support the competitiveness of the South African industry
- Promote quality in connection with commodities, products and services
- Render conformity assessment services and matters connected therewith

This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of the SABS, as well as relevant statutory information requirements. The co-administrators have been designated as the Accounting Authority until such time as the new board has been appointed.

Governance environment

The SABS is listed as a Schedule 3B entity in terms of the Public Finance Management, 1999 (Act No. 1 of 1999) (PFMA) and the related Treasury regulations. The government of South Africa, through the Minister of Trade and Industry, is the sole shareholder.

In compliance with the requirements of the PFMA, the SABS concludes an annual shareholder's compact with the shareholder representative. The shareholder's compact contains shareholder expectations in the form of predetermined objectives and key performance information, and ensures that the Accounting Authority and the shareholder representative are aligned in their understanding and acceptance of strategic objectives. Progress on performance is regularly reviewed by the Board and reported to the shareholder representative quarterly.

The Accounting Authority is fully committed to conducting business in accordance with generally accepted corporate practices. Although the Accounting Authority is accountable to the Minister, and acts in the interests of the organisation, its inclusive decision-making approach accommodates the legitimate interests and expectations of its stakeholders.

The Accounting Authority supports the notion that good governance is essentially about effective leadership and that sustainability is a moral and economic imperative in running a business.

Financial results

The SABS Group recorded a net loss of R61.6 million for the year ended 31 March 2020 against a budgeted loss of R66 million. The group has not achieved the revenue targets set for the period under review and is significantly below budget by R169.5 million. Summarised information on the financial performance of the SABS is included in the unaudited group financial overview section on pages 43 to 47 of the Integrated Annual Report.

Performance against approved annual performance plan

The SABS achieved unsatisfactory results for the year under review, meeting only two of 13 of the targets set. The targets not met included:

- **The turnaround time** of 412 days, reflected an improvement compared to the 497 days at 31 March 2019, but is marginally higher than the target of 400 days.

- **Supporting SMMEs and black industrialists** that have received either SABS conformity services or innovation and design services. During the year, the SABS supported 47 SMMEs.

  For Corporate Plan performance measurement purposes, the SABS only recognises those SMMEs which meet the following criteria:
  - SMME must be a registered business (at the time of service support)
  - Generate annual turnover of R10 million or less

  For the 2020 financial year, appropriate documentation, in line with the set criteria, could only be provided by 15 of the SMMEs assisted, against the annual target of 80.

- The SABS is expected to support the **economic participation of designated groupings** namely, women, youth and persons with disabilities, in the industrial economy. The SABS contributes to the initiative by supporting individuals through the SABS' Innovators programme through the SABS Design Institute (external focus) as well by appointing designated people into the SABS (internal focus).

- At the beginning of the financial year, a decision was made to wind-up the Design Institute. Consequently, no support was provided to the SABS Innovator Programme in the year.
- **Improvement in overall customer satisfaction** with the SABS' services. Customer satisfaction survey impacted mainly by an unfavourable feedback from the Laboratory Services division. Achieved 69% against target of 75%.

Key performance area	External focus Actual 1	Internal focus Actual 2	Total		Target
			Actual	%	
Women	-	383	383	44.70%	50%
Youth (35 and below)	-	183	183	21.40%	30%
Persons with disabilities	-	14	14	1.60%	2%
Total supported / headcount	-	856	856		

- **Attract and retain customers.** The SABS did not achieve this objective as it continuous to be effected by poor legacy operational challenges. The SABS managed to retain 7,412 customers against a target of 7,935 customers.
- **Revenue from services** of R444.8 million was 27.6% below the annual target of R614 million, largely because of lower than expected demand in certain areas and testing services impacted by a lack of consistent laboratory conditions.
- Maintaining financial sustainability of the SABS Group. **Net profit of the SABS Group** was a loss of R61.6 million, against a targeted loss of R66 million.
- **Improve turnaround times in Laboratory Services division.** Achieved 72% of contracted delivery times against a target of 80% due to lack of consistent laboratory conditions throughout the year, lack of appropriate reporting system to monitor turnaround times at a job level and old infrastructure impacting delivery times.
- **Improve cost-to-income ratio of the SABS.** 118.6% against a target of 111% was achieved. Ratio impacted by lower revenue earned.
- **Improve employee engagement.** The employee engagement survey was originally scheduled to be conducted in quarter three, but has been postponed to quarter 4. However, in quarter 4 staff embarked on industrial action and a decision was taken to postpone the survey until the matters have been resolved.

ACCOUNTING AUTHORITY REPORT (continued)

For the year ended 31 March 2020

Performance against strategic objectives

Strategic objective	Output and key performance area	Annual target	FY2019/20 target	FY2019/20 actual	Status
	Standards development				
Develop, promote and increase the use of standards	Alignment of the standardisation programme to industrialisation programme and IPAP sectors % deliverables completed as per the IPAP Plan	80%	80%	45%	🔴
	Reduce the number of days to publish a standard Average number of days to publish a standard	400 days	400 days	412 days	🟡
	Economic participation				
	SMME and entrepreneurship development Number of SMMEs and black industrialists that received design, innovation and conformity assessment services	80	80	15	🔴
	Supporting the economic participation of designated group				
	% of women supported	50%	50%	44.7%	🔴
	% of youth supported	30%	30%	21.4%	🔴
	% of people of disabilities supported	2%	2%	1.6%	🔴
Provide integrated conformity assessment service solutions	Improvement in overall customer satisfaction with the SABS services Customer satisfaction rate	75%	75%	69%	🟡
	Attract and retain customers Increase in number of active customers 1	Maintain prior year level (FY2019: 7 935)	Maintain prior year level (FY2019: 7 935)	7 412	🟡
Achieve and maintain financial sustainability	Increase group revenue from services Group revenue generated	R614 million	R614 million	R444.8 million	🔴
	Maintain financial sustainability of the SABS Group Net profit of the SABS Group	Loss of R66 million	Loss of R66 million	Loss of R61.6 million	🟢
Continuous improvement in internal systems and process	Improve turnaround times in Laboratory services division % achievement of contracted delivery times met	80%	80%	71%	🔴
	Improve cost-to-income ratio of the SABS Group Cost-to-income ratio of the SABS Group	111%	111%	118.6%	🟡
	Maintain relevant accreditation	Maintain	Maintain	Maintained	
Creating and maintaining a high-performance culture	Continuous development of employee skills to improve competency levels Total training spend as a percentage of the salary bill	60%	60%	66%	🟢 🟢
	Improve employee engagement Employee engagement rate	Rating of 3	Rating of 3	Not achieved	🔴

[1] An active customer is a customer who has purchased a product or service from the SABS in the last 12 months. Measured on a 12-month rolling basis

Status legend: 🟢 Annual target met or exceeded 🔴 Annual target not met 🟡 Actual performance

Subsidiaries

The activities of the SABS' subsidiaries, as set out in note 13 to the Annual Financial Statements, are the provision of conformity assessment services which include certification and testing services.

Events subsequent to reporting date

The Accounting Authority is not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements that will have a significant impact on the operations of the group, the results of the operations or the financial position of the group.

Going concern

The Accounting Authority assessed the SABS as being a going concern in terms of financial, operational and other indicators. The Accounting Authority is of the view that the SABS' status as a going concern is assured.

Board and secretariat

The Accounting Authority of the SABS are reflected on page 57 and the name and registered office of the Company Secretary appears on the inside back cover of the Integrated Annual Report.

Related party transactions

Details of the SABS' related party transactions are set out in note 30 of the Annual Financial Statements.

Information presented in terms of section 55(2)(b) of the PFMA

i. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: There were no instances where the SABS sustained material losses. Refer to note 32 and 33 of the Annual Financial Statements
ii. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: There were no instances where the SABS sustained material losses.
iii. Particulars of any losses recovered or written off: No material losses were recovered or written off other than in the ordinary course of business.
iv. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the SABS: During the year, the SABS received R245.6 million from the government. Refer to note 30 of the annual financial statements.

THE SABS' BBBEE rating

The SABS achieved a Level 8 BBBEE contributor status at its most recent assessment (previously: Non-compliant). The group's BBBEE certification was performed by FinXBEE, an independent economic empowerment rating agency. Management will continue to implement an improvement plan.

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee's primary purpose is to oversee the internal control and financial assurance oversight on behalf of the Board in compliance with the statutory duties and responsibilities in terms of the Companies Act and the King Code

Legislative requirements

The Audit and Risk Committee herewith presents its report for the financial year ended 31 March 2020, as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with Treasury Regulation 27.1.10.

Membership and attendance

In July 2018, the then-Minister of **the dtic** dissolved the SABS Board and appointed three co-administrators. The Interim Audit and Risk Committee was established on 25 July 2018 in accordance with sections 51(1)(a)(ii) and 77 of the PFMA. The Committee as a whole has the requisite qualifications and experience to fulfil its duties and comprised of the following members:

Name	Designation	Qualification	Areas of experience
Sikkie Kajee	Independent non-executive chairman	• CD(SA) • MBA • Professional accountant (SA) • BCompt (Hons) Accounting and auditing	Finance, auditing, internal auditing, compliance and business turnaround
Rene Van Wyk	Independent non-executive	• CA(SA) • MBA • Diploma in Advanced banking	Finance, risk management and governance, human capital management, business turnaround
Jodi Scholtz	Executive	• MBA • B Comm (Hons) • BA Arts & Post graduate Diploma: Trade Policy	Strategy, operations, risk management and governance
Shabeer Khan	Non-executive	• CA(SA)	Finance, auditing, governance and risk

In terms of section 77(b) of the PFMA, an audit committee must meet at least twice a year. During the financial year ended 31 March 2020, the Committee met on five occasions. The following table shows the attendance at these meetings:

AUDIT AND RISK COMMITTEE REPORT (continued)

In terms of section 77(b) of the PFMA, an audit committee must meet at least twice a year. During the financial year ended 31 March 2019, the Committee met on six occasions. The table below reflects the attendance at these meetings:

	7 April 2019	22 May 2019	27 July 2019	23 October 2019	23 January 2020	Total number of meetings: 5
COMMITTEE MEMBERS						
Sikkie Kajee	✔	✔	✔	✔	✔	5
Rene Van Wyk	✔	✔	✔	✔	✔	5
Jodi Scholtz (Co-administrator)	A	✔	✔	✔	✔	4
Shabeer Khan	A	A	✔	A	✔	2
BY INVITATION						
Garth Strachan (Acting CEO)	✔	✔	✔	✔	N/A	4
Tina Maharaj (CFO)	✔	✔	✔	✔	✔	5

✔ – Attended
A – Absent with apology
N/A – Not a Board member or co-administrator

The members of the Audit and Risk Committee held meetings with the Accounting Authority, senior management of the SABS, internal audit function and the external auditors, collectively and individually, on matters related to governance, internal control and risk in the SABS, throughout the reporting period.

Audit and Risk Committee responsibilities

The Audit and Risk Committee has complied with its responsibilities arising from section 51(1)(a)(ii) of the PFMA read with Treasury Regulation 27.1.8, and reports that it operated in terms of the Audit and Risk Committee Terms of Reference read in conjunction with the Internal Audit Charter.

Effectiveness of internal control

The Committee reviewed the reports of both the internal and external auditors, in respect of audits conducted on the internal control environment. Various matters were brought to the Committee's attention which were not prevented or detected by the SABS' system of internal controls.

Based on the extent of the audit work carried out by both the internal and external auditors, instances of breakdowns in controls were identified. The Committee took note of the matters raised and considered the appropriateness of the responses from management. Remedial action, where appropriate, will be monitored.

Based on the extent of the audit work carried out by both the internal and external auditors, nothing was brought to the Committee's attention which would suggest a material breakdown of any internal control system. The Committee was therefore satisfied that the internal financial control environment continued to function effectively.

The quality of management and quarterly reports submitted in terms of the PFMA

The Audit and Risk Committee is satisfied with the content and quality of management and quarterly reports prepared and issued during the year under review in compliance with the statutory framework. The Committee has engaged with management to remedy shortcomings, especially relating to reports on performance against predetermined objectives.

The Audit and Risk Committee has reviewed and commented on the SABS' Annual Financial Statements and report on performance information and their timely submission to the external auditors by 31 July 2020.

Internal audit function

The Accounting Authority is obliged, in terms of the PFMA, to ensure that the entity has a system of internal audit under the control and direction of the Audit and Risk Committee. The Committee is satisfied that the internal audit function is operating effectively and that it has addressed the key risks pertinent to the SABS.

The Committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity. The last external assessment indicates that a generally "conforms rating" can be applied to the internal audit work and the term "Conforms with the International Standards for the Professional Practice of Internal Auditing" may be used by the function.

Risk management function

The Audit and Risk Committee is responsible for the oversight of the risk management function. The SABS' Chief Risk Officer reports to the Audit and Risk Committee on the SABS' management of risk. The Committee has reviewed the risk register and the reports from the Chief Risk Officer and is generally satisfied with the maturity of the risk management process.

Fraud and corruption

The Audit and Risk Committee provides oversight over the fraud and corruption prevention controls and mechanisms within the SABS' operating environment. To this end:

- Risk incidents are logged in an operational risk register and monitored.
- The SABS has a toll-free whistle-blowing hotline operated by an external service provider. Employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. All incidences of fraud or corruption reported through the toll-free whistle-blowing hotline during the year were investigated.

Evaluation of the finance function

The Committee is satisfied that the finance function performed effectively, with some constraints identified. The Committee will monitor the implementation of the remedial plans.

IT governance

The Committee provides oversight over the IT systems and automated controls and mechanisms within the SABS' operating environment. To this end, the Committee has noted the need to strengthen various IT general controls and IT governance. This will be addressed in the new financial-year and is expected to be a multi-year project to modernise and upgrade information systems.

AUDIT AND RISK COMMITTEE REPORT (continued)

Evaluation of the Integrated Annual Report and Annual Financial Statements

The Audit and Risk Committee has reviewed:

- Significant financial reporting judgements and estimates contained in the Annual Financial Statements
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context
- Quality and acceptability of, and any changes in, accounting policies and practices
- Compliance with accounting standards and legal requirements
- Significant adjustments and/or unadjusted differences resulting from the audit.
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted
- Reasons for major year-on-year fluctuations
- Asset valuations and revaluations
- Calculation and levels of general and specific provisions
- Write-offs and reserve transfers
- The basis for the going concern assumption, including any financial sustainability risks and issues

The Committee has evaluated the Annual Financial Statements for the year ended 31 March 2020 and considers that it complies, in all material respects, with the requirements of the IFRS and the requirements of the PFMA and the Companies Act and that the adoption of the going concern basis in preparing the Annual Financial Statements is appropriate.

External auditor's report

The Audit and Risk Committee concurs with and accepts the conclusion and audit opinion of the external auditors on the Annual Financial Statements. The Committee is of the view that the audited Annual Financial Statements be accepted and read together with the report of the external auditors.

The external audit function, performed by the Auditor-General of South Africa, is independent of the entity. The Committee has met with the external auditors to ensure that there are no unresolved issues, and acknowledges the diligence and cooperation of the external audit team.

Other matters

The Audit and Risk Committee draws attention to the financial position of the SABS. It is acknowledged that there are comprehensive business plans in place, with defined action items to achieve financial sustainability, however, the action items proposed in the business plans require the support and the attention of the Board and Executive Authority to ensure successful implementation.

On behalf of the Audit and Risk Committee:

Sikkie Kajee
Chairman of the Audit and Risk Committee

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Standards development and conformity assessment services
ADMINISTRATORS	J Scholtz Dr T Demana
REGISTERED OFFICE	1 Dr Lategan Road Groenkloof Pretoria 0002
BUSINESS ADDRESS	1 Dr Lategan Road Groenkloof Pretoria 0002
POSTAL ADDRESS	Private bag X191 Pretoria 0001
BANKERS	ABSA
AUDITOR	Auditor-General South Africa

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Prepared under supervision of Tina Maharaj (CFO)

Published 30 October 2020

The Annual Financial Statements set out on page 73 - 142, which have been prepared on the going concern basis, were approved by the Accounting Authority on 1 October 2020 and were signed on its behalf by:

J Scholtz

STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED 31 MARCH 2020

		Group		SABS	
	Note(s)	2020 R'000	2019 Restated * R'000	2020 R'000	2019 Restated * R'000
Revenue	1	444 813	506 510	33 120	33 915
Other income	2	80 659	77 145	140 226	139 160
Government grants	30	245 559	232 477	245 559	232 477
		771 031	**816 132**	**418 905**	**405 552**
Employee benefit expenditure	3	(552 474)	(516 369)	(240 085)	(223 289)
Depreciation and amortisation	9 - 12	(50 396)	(43 102)	(21 974)	(18 535)
Travel expenditure		(32 660)	(34 827)	(5 958)	(6 799)
Advertising expenditure		(13 766)	(5 778)	(12 523)	(4 025)
Contract services		(51 782)	(41 235)	(48 470)	(38 639)
Consulting and technical fees		(20 215)	(31 090)	(13 445)	(19 057)
Repairs and maintenance		(11 806)	(9 108)	(7 093)	(5 565)
Grant to subsidiary	30	-	-	(123 565)	(20 000)
Other operating expenses	4	(148 136)	(165 907)	20 934	(158 016)
Operating expenditure		**(881 235)**	**(847 416)**	**(452 179)**	**(493 925)**
Operating loss		**(110 204)**	**(31 284)**	**(33 274)**	**(88 373)**
Interest income	5	50 974	30 121	45 595	30 729
Finance costs	6	(2 345)	(48)	(1 039)	(48)
(Loss)/Profit before taxation		**(61 575)**	**(1 211)**	**11 282**	**(57 692)**
Taxation		-	-	-	-
(Loss)/Profit for the year		**(61 575)**	**(1 211)**	**11 282**	**(57 692)**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

		Group		SABS	
	Note(s)	2020 R'000	2019 Restated * R'000	2020 R'000	2019 Restated * R'000
Loss for the year		**(61 575)**	**(1 211)**	**11 282**	**(57 692)**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Gain on post-employment healthcare benefit	22	6 586	6 957	3 328	2 842
Income tax relating to post-employment healthcare benefits	21	(912)	(1 152)	-	-
Other comprehensive income for the year net of taxation		**5 674**	**5 805**	**3 328**	**2 842**
Total comprehensive (loss)/income		**(55 901)**	**4 594**	**14 610**	**(54 850)**

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

		Group			SABS		
	Note(s)	2020 R'000	2019 Restated * R'000	2018 Restated * R'000	2020 R'000	2019 Restated * R'000	2018 Restated * R'000
ASSETS							
Non-Current Assets							
Property, plant and equipment	9	686 324	687 700	713 357	445 315	438 246	449 797
Right-of-use assets	10	15 749	-	-	5 859	-	-
Investment property	11	7 530	7 734	7 937	152 865	157 431	156 088
Intangible assets	12	13 413	20 081	24 399	9 808	13 630	14 711
Loans to group companies	16	-	-	-	93 462	6 414	3 434
Investments at fair value through profit and loss	14	100 460	312 583	430 525	100 460	312 583	430 525
		823 476	**1 028 098**	**1 176 218**	**807 769**	**928 304**	**1 054 555**
Current Assets							
Inventories	17	3 947	3 125	2 708	3 947	3 125	2 708
Trade and other receivables	18	149 147	199 464	164 362	22 702	24 156	16 831
VAT receivable	26	1 271	-	-	21 911	1 964	-
Cash and cash equivalents	19	531 888	259 161	125 995	393 735	186 733	125 921
		686 253	**461 750**	**293 065**	**442 295**	**215 978**	**145 460**
Total Assets		**1 509 729**	**1 489 848**	**1 469 283**	**1 250 064**	**1 144 282**	**1 200 015**
EQUITY AND LIABILITIES							
EQUITY							
General reserve	20	54 282	54 282	54 282	54 282	54 282	54 282
Other components of equity	21	24 523	18 849	13 044	15 500	12 172	9 330
Accumulated profit		752 444	814 019	815 230	702 863	691 581	749 271
Discontinued operations	8	-	(94)	(94)	-	-	-
		831 249	**887 056**	**882 462**	**772 645**	**758 035**	**812 883**
LIABILITIES							
Non-Current Liabilities							
Lease liabilities	10	9 004	-	-	1 207	-	-
Employee benefit obligation	22	85 336	92 203	98 388	49 062	53 066	55 763
Deferred income	23	367 282	223 427	242 461	342 521	203 838	239 354
Deferred tax	15	2 324	1 412	260	-	-	-
		463 946	**317 042**	**341 109**	**392 790**	**256 904**	**295 117**
Current Liabilities							
Trade and other payables	24	132 078	148 642	153 944	64 072	57 548	52 781
Lease liabilities	10	7 575	-	-	4 599	-	-
Employee benefit obligation	22	10 123	10 319	10 129	6 857	6 899	6 822
Deferred income	23	64 404	125 721	30 965	9 101	64 896	5 733
Provisions	25	353	784	46 921	-	-	26 594
VAT payable	26	-	190	3 659	-	-	85
		214 533	**285 656**	**245 618**	**84 629**	**129 343**	**92 015**
Liabilities of disposal groups	8	-	94	94	-	-	-
Total Liabilities		**678 479**	**602 792**	**586 821**	**477 419**	**386 247**	**387 132**
Total Equity and Liabilities		**1 509 729**	**1 489 848**	**1 469 283**	**1 250 064**	**1 144 282**	**1 200 015**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Other components of equity R'000	Discontinued operations R'000	General reserve R'000	Accumulated profit R'000	Total equity and reserves R'000
Group					
Opening balance as previously reported	13 044	(94)	54 282	800 497	867 729
Adjustments					
Adoption of IFRS9 - ECL allowance on trade receivables (prior period error)	-	-	-	15 275	15 275
Prior period error - Standards subscription	-	-	-	(5 349)	(5 349)
Prior period error - Buildings renovation useful life alignment	-	-	-	4 807	4 807
Restated Balance at 01 April 2018	**13 044**	**(94)**	**54 282**	**815 230**	**882 462**
Loss for the year	-	-	-	(1 211)	(1 211)
Other comprehensive income	5 805	-	-	-	5 805
Total Comprehensive Income for the year	**5 805**	**-**	**-**	**(1 211)**	**4 594**
Balance at 01 April 2019	**18 849**	**(94)**	**54 282**	**814 019**	**887 056**
Profit/ (loss) for the year	-	94	-	(61 575)	(61 481)
Other comprehensive income	5 674	-	-	-	5 674
To	**5 674**	**94**	**-**	**(61 575)**	**(55 809)**
Balance at 31 March 2020	**24 523**	**-**	**54 282**	**752 444**	**831 249**
Note(s)	21	8	20		
SABS					
Opening balance as previously reported	9 330	-	54 282	829 016	892 628
Adjustments					
Adoption of IFRS9 - ECL allowance on trade receivables (prior period error)	-	-	-	441	441
Adoption of IFRS9 - ECL allowance on loan to group companies (prior period error)	-	-	-	(79 644)	(79 644)
Prior year adjustments	-	-	-	(542)	(542)
Restated Balance at 01 April 2018	**9 330**	**-**	**54 282**	**749 271**	**812 883**
Loss for the year	-	-	-	(57 692)	(57 692)
Other comprehensive income	2 842	-	-	-	2 842
Total Comprehensive Loss for the year	**2 842**	**-**	**-**	**(57 692)**	**(54 850)**
Balance at 01 April 2019	**12 172**	**-**	**54 282**	**691 581**	**758 035**
Profit for the year	-	-	-	11 282	11 282
Other comprehensive income	3 328	-	-	-	3 328
Total Comprehensive Income for the year	**3 328**	**-**	**-**	**11 282**	**14 610**
Balance at 31 March 2020	**15 500**	**-**	**54 282**	**702 863**	**772 645**
Note(s)	21		20	37	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

	Note(s)	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		570 894	552 111	173 941	165 349
Cash received from government	30	245 559	232 477	245 559	232 477
Cash grant paid to subsidiary	30	-	-	(123 565)	-
Cash paid to suppliers and employees		(836 115)	(857 038)	(597 163)	(491 919)
Cash used in operations	27	(19 662)	(72 450)	(301 228)	(94 093)
Interest income		47 336	30 121	40 279	30 118
Dividend income		1 507	5 719	1 507	5 719
Finance costs		(2 345)	(48)	(1 039)	(48)
Net cash from operating activities		**26 836**	**(36 658)**	**(260 481)**	**(58 304)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	9	(39 474)	(21 597)	(22 419)	(7 723)
Proceeds on disposal of property, plant and equipment	27	3	93	5	1 184
Purchase of investment property	11	-	-	-	(5 751)
Purchase of other intangible assets	12	(1 282)	(3 100)	(872)	(3 022)
Loans to group companies repaid		-	-	202 000	-
Purchase of investments at fair value		(5 804)	(24 528)	(5 804)	(24 528)
Sale of investments at fair value	14	208 000	132 000	208 000	132 000
Infrastructure grant funding received	30	90 436	86 956	90 436	86 956
Infrastructure grant funding to subsidiary	30	-	-	-	(60 000)
Net cash from investing activities		**251 879**	**169 824**	**471 346**	**119 116**
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment on lease liabilities		(5 988)	-	(3 863)	-
Net cash from financing activities		**(5 988)**	**-**	**(3 863)**	**-**
Total cash movement for the year		**272 727**	**133 166**	**207 002**	**60 812**
Cash at the beginning of the year		259 161	125 995	186 733	125 921
Total cash at end of the year	**19**	**531 888**	**259 161**	**393 735**	**186 733**

ACCOUNTING POLICIES

1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate Annual Financial Statements are set out below.

1.1 Basis of preparation

The consolidated and separate Annual Financial Statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these Annual Financial Statements, PFMA and the Companies Act of South Africa.

The Annual Financial Statements have been prepared on the historic cost basis, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in South African Rand (ZAR), which is the group and company's functional currency, and all values are rounded to the nearest thousand (R'000), except when otherwise stated.

These accounting policies are consistent with the previous period, except for the changes set out in note 36.

1.2 Consolidation

Basis of consolidation

The consolidated Annual Financial Statements incorporate the Annual Financial Statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the group.

The results of subsidiaries are included in the consolidated Annual Financial Statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the Annual Financial Statements of subsidiaries to bring their accounting policies in line with those of the group.

All inter-company assets, liabilities,equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries in the separate financial statements
In SABS's separate Annual Financial Statements, investments in subsidiaries are carried at cost less any accumulated impairment. Where the carrying amount of the investment is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is transferred to profit and loss. Investments in subsidiaries is tested for impairment on an annual basis. The below market element of the intercompany loan is recorded under the investment in subsidiaries and impaired in full.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of Annual Financial Statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. 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 estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Impairment of financial assets (excluding trade receivables)

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets. Refer to note 13.

Useful lives of property, plant and equipment

Property, plant and equipment is depreciated on a straight line basis over its useful economic life. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. Management reviews the appropriateness of useful economic life at least annually and any changes that could affect prospective depreciation/amortisation rates and asset carrying values. Estimates in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of tangible and intangible assets in the future.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers.

- **Identifying performance obligations**
  The Group provides Certification services that start off with a pre-assessment audit, prior to the customer receiving the rights to access the certification mark scheme. The pre-assessment audit and mark scheme use both a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer. The Group determined that both the pre-assessment audit and use of the mark scheme are capable of being distinct. The fact that the Group sometimes performs the pre-assessment audit and does not subsequently grant use of the mark scheme indicates that the two can be provided on a stand-alone basis. This indicates that the customer can benefit from both services on their own. The Group also determined that the promises to transfer the pre-assessment audit & mark scheme usage are distinct within the context of the contract

- **Determining the method to estimate variable consideration and assessing the constraint**
  Certain contracts for Laboratory Services do not have a value that can be determined upfront, and some of the certification contracts have penalties for cancellations, which give rise to variable consideration. In determining the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. If this cannot be determined, the Group does not recognise any revenue until it knows the amount that will be recognised.

Refer to note 1 for additional disclosure.

Retirement benefits

The expected costs of providing post-employment benefits under defined benefit arrangements relating to employee service during the period are determined based on financial actuarial assumptions. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details about post-retirement benefits are provided in note 22.

ECL allowance of trade receivables

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical probability of default and credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due on a collective basis for all trade and other receivables in totality. The provision matrix is initially based on the Group's historical observed default rates. Based on the nature of the business and historical evidence the default point is set at 150 days past due. The historical default rates on ageing has been selected as the most appropriate methodology to develop the probabilities of default with a settlement rate analysis a twelve month performance window is used for the calculation of the probability of default to give time to trade receivables to reach settlement.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical probability of default and credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18.

Income taxes

Computation of the Group's income tax expense and liability, provisions for potential tax liabilities and recognition of deferred tax assets are in terms of the group's taxation policy.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Refer to note 15.

1.4 Investment property

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses and are accounted for in line with the policy on property, plant and equipment (refer to note 11).

Depreciation is charged to the statement of profit and loss on a straight line basis over the estimated useful life of each part of an item of investment property from when it is available to operate as intended by management. The estimated useful life of investment properties is :

Item	Useful life
Property - buildings	5 - 50 years

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition. Transfers are made to (or from) investment property only when there is a change in use.

1.5 Property, plant and equipment

Property, plant and equipment are tangible assets which the group holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the group, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost or deemed cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset .

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the group and the cost can be measured reliably. All other repair and maintenance costs are included in profit or loss in the year in which they are incurred.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria are included as a replacement in the cost of the item of property plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one year are included in property, plant and equipment.

Property plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the group. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

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

Item	Depreciation method	Useful life
Buildings	Straight line	3 - 50 years
Motor vehicles	Straight line	3 - 35 years
Furniture and office equipment	Straight line	3 - 50 years
Laboratory equipment	Straight line	3 - 60 years
Artwork	Straight line	30 years

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

Where significant parts (components) of an item of property, plant and equipment have different useful lives or depreciation methods to the item itself, these parts are accounted for as separate items of property, plant and equipment.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in the statement of profit or loss when the item is derecognised.

The Group capitalises all costs incurred in constructing assets to be available for use as intended to capital work in progress (WIP) is not depreciated. Once the assets' construction has been completed and the assets are ready for use as intended by management, the Group transfers the WIP at cost to the various classes of property plant and equipment items to which they relate. The normal provisions of property plant and equipment items to which they have been transferred to will then apply.

The WIP account relates to acquired assets under construction awaiting transfer as all asset acquisitions are procured through the WIP account and capitalised from there.Capital work in progress is stated at cost net of accumulated impairment losses, if any.

1.6 Intangible assets

An intangible asset is recognised when:
• it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
• the cost of the asset can be measured reliably.

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

The Group does not have any internally generated intangibles. The capital work in progress (WIP) account in intangibles (refer note 12) relates to acquired intangibles awaiting transfer as all intangible asset acquisitions are procured through the WIP account and transferred from there. Capital work in progress is stated at cost net of accumulated impairment losses, if any. WIP is not amortised. Once the assets' development has been completed and the assets are ready for use as intended by management, the Group transfers the capital work in progress at cost to intangible asset items to which they relate. The normal provisions of intangible asset items to which they have been transferred to will then apply.

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

Intangible assets with finite lives or capital work in progress are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets are reviewed at the end of every reporting period.

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

Item	Useful life
Computer software, other	3 - 20 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

1.7 Financial instruments

Financial instruments held by the group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Note 29 Financial instruments and risk management presents the financial instruments held by the group based on their specific classifications.

Loans receivable at amortised cost

Classification
Loans to group companies (note 16) are classified as financial assets subsequently measured at amortised cost. Where the interest rate charged is not market related the Group determines the non-market portion of the loan and classify this to investment in subsidiaries.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in interest income (note 5).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:
- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired.

The gross carrying amount is the amortised cost before adjusting for a loss allowance.

- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Expected credit losses

The group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans. There is a 12 month ECL allowance applied from initial recognition.

For loans receivable the simplified approach is used in calculating ECL's. The ECL is a product of a probability default and loss given default. The probability of default is pegged against the South African credit risk rating. The loss given default is based on the South African acceptable range of LGD for small to medium sized enterprises.

As the simplified approach to the ECL calculation has been applied by the Group, the application of macro-economic factors under various scenarios to overlay forward looking estimates in the ECL calculation is not necessary.

The group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the group compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.On initial recognition the Group measures the loss allowance at an amount equal to 12 month ECL.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

The group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due. Based on the assessment the group has assessed the risk of default as being high.

Definition of default

For purposes of internal credit risk management, the group consider that a default event has occurred if there is internal or external information that indicates that the subsidiary is unlikely to pay its loan balance in full per contractual terms.

Irrespective of the above analysis, the group considers that default has occurred when a loan installment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write off policy

The group writes off a loan when there is information indicating that the subsidiary is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the subsidiary has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other expenditure in profit or loss as a movement in credit loss allowance (note 16).

Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 29).

Derecognition

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 18).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Trade and other receivables denominated in foreign currencies

When trade and other receivables are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in other operating gains (losses) (note 2 or 4).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management (note 29).

Expected credit loss allowance

The group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical probability of default and credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Measurement and recognition of expected credit losses

The group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic probability of default and credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality. Details of the provision matrix is presented in note 18.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in profit or loss as a movement in credit loss allowance (note 18).

Write off policy

The Group considers writing off a receivable as a bad debt when there is information that suggests reasons why a debt may be considered as irrecoverable. Such reasons may include:
- Definite economic loss events: Reliable and verifiable information has been received pertaining to a customer entering into business rescue proceedings, liquidation, being subject to a winding up order, the sole member / sole proprietor becoming deceased or an official de-registration of a company.
- Cost to recover exceeds or is likely to exceed the value of the debt: This must be ascertained in terms of the identification of any pertinent credit risk, the likelihood of successful collections, advices from the Group collections attorneys and the time value of money (i.e. the cost of recovery increases and success rate decreases the older the debt gets) and the legal strength of the Group position regarding any disputed debt.
- All reasonable / cost effective collection activities have been undertaken: i.e. all debt collection procedures have been followed and all cost effective legal collections avenues have been exhausted.
- No trace: The customer cannot be successfully traced in order to pursue them for payment.
- The three year period of prescription has been exceeded. As per the Prescription Act 68 of 1969.
- Any other pertinent reason: Not cited above that may lead to a debt being considered as irrecoverable

Receivables written off may still be subject to enforcement activities under the group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk

Details of credit risk are included in the trade and other receivables note (note 18) and the financial instruments and risk management (note 29).

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Investments in equity instruments

Classification

Investments in equity instruments are presented in note 14. They are classified at fair value through profit or loss.

Recognition and measurement

Investments in equity instruments are recognised when the group becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. All other transaction costs are recognised in profit or loss.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised either in profit or loss.

Fair value gains or losses recognised on investments at fair value through profit or loss are included in other income (Note 2).

Dividends received on equity investments are recognised in profit or loss when the group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in other income (Note 2).

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

The gains or losses which accumulated in equity in the reserve for valuation of investments for equity investments at fair value through other comprehensive income are not reclassified to profit or loss on derecognition. Instead, the cumulative amount is transferred directly to retained earnings.

Trade and other payables

Classification

Trade and other payables (note 24), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Trade and other payables expose the group to liquidity risk and possibly to interest rate risk. Refer to note 29 for details of risk exposure and management thereof.

Trade and other payables denominated in foreign currencies

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (Note 2 or 4).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management (Note 29).

Derecognition

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value. Cash and cash equivalents comprise of cash at bank and on hand and short-term and call deposits which are subject to insignificant risk of changes in value.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Derecognition

Financial assets

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Financial liabilities

The group derecognises financial liabilities when, and only when, the group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.8 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences,except to the extent that the deferred tax liability arises from the initial recognition of goodwill or an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences: the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The Group did not recognised a deferred tax asset due as there is no future taxable profits to offset it against.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in the statement of profit or loss for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

Value added tax

Revenues, expenses and assets are recognised net of the amount of vat, except:

- Where the vat incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

The net amount of vat recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.9 Leases - IAS 17

The group applied IFRS16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described in note 36.

The policy is applicable to the comparative results.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependant on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Rental income arising from operating leases on investment properties is accounted for on a straight- line basis over the lease term.

Group as lessee

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

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

1.10 Leases - IFRS16

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i.) Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Buildings - 3 to 50 years
- Motor vehicles and other equipment - 3 to 20 years
- Licence lease and useful life

The right-of-use assets are also subject to impairment and is tested annually or when there is an indication of impairment (policy note 1.3) .

ii.) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii.) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term (refer to note 11) .

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

1.11 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

1.12 Non-current assets (disposal groups) held for sale or distribution to owners

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups are classified as held for distribution to owners when the entity is committed to distribute the asset or disposal group to the owners. This condition is regarded as met only when the distribution is highly probable and the asset (or disposal group) is available for immediate distribution in its present condition, provided the distribution is expected to be completed within one year from the classification date.

Non-current assets (or disposal groups) held for sale (distribution to owners) are measured at the lower of their carrying amount and fair value less costs to sell (distribute).

A non-current asset is not depreciated (or amortised) while it is classified as held for sale (held for distribution to owners), or while it is part of a disposal group classified as such.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale (distribution to owners) are recognised in profit or loss.

1.13 Impairment of non- financial assets

The group assesses at each end of the reporting period or more frequently if there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use, for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset or CGU is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If such indication exists, the Group estimates the assets's or CGU's recoverable amount.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets or CGU carried at cost less accumulated depreciation or amortisation is recognised immediately in the statement of profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.14 Reserves

The General reserve comprises profits that have been set aside to provide for replacement of assets or any other contingencies as deemed necessary by management. The reserve is build up to a maximum of 50% of one year's operational expenses, and is disclosed under equity as it is part of the Group's net worth.

1.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Post-employment healthcare benefit obligation

The entitlement to post–employment healthcare benefits is based on employees appointed prior to 1 September 1998, who have ten years membership to the designated medical aid schemes at retirement, remaining in service up to retirement age and retired employees with the benefit.

The liability recognised in respect of post-employment healthcare benefit is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms of maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit or loss.

Long service leave obligation

The entitlement to leave benefits is based on employees who were employed before 1 March 2008 who will receive additional leave days based on their respective years of service with SABS. Specifically SABS employees with six to ten years' service are awarded an additional three days leave per annum for the rest of employment and SABS employees with ten completed years or more in service will receive another three days additional per annum leave for the rest of their employment (i.e. six days additional leave per annum). Employees will receive the long service award once they have reached the years of service. The obligation is valued annually by an independent qualified actuary. Any unrecognised actuarial gains and losses and past service costs are recognised immediately in profit and loss.

1.16 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

1.17 Government grants

Government grants are recognised when there is reasonable assurance that:

- the group will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income in the period in which it becomes receivable (refer to note 30).

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income and recognised as income in equal amounts over the expected useful life of the related asset (refer to note 23).

Grants related to income are presented as a credit in the profit or loss (separately).

1.18 Revenue from contracts with customers

The group is in the business of providing sales of standards as well as laboratory services, training and certification services.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements,because it typically controls the goods or service before transferring them to customers. To determine whether to recognise revenue the Group follows a five-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as the performance obligation(s) are satisfied.

The Group enters into transactions for each product or service offering separately and the transaction price is determined based on each individual performance obligation.

Certain Group contracts have price uncertainty at the beginning of each billing period although services to be provided to the customer are determinable, the billable amount is only established post the delivery of the service. Transaction prices for services and sale of standards are mainly made up of the fixed rates and variable components such as annual escalation of fees on the annual certification fees, penalty on cancellation of scheduled audits, reimbursements of re-certification costs, discounts on annual payments. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. Refer to note 1 for more detail.

The Group has adopted the practical expedient in applying IFRS 15, in the determination of the transaction price as there is no significant financing component as the payment terms are 30 days.

Contract Balances

Trade receivables - A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of trade receivables and other receivables for the accounting policy applicable to initial recognition and subsequent measurement.

Contract liabilities - A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Subscriptions cash customers - Contracts where the Group grants a customer a right to use complete collection, pre selected or self-selected number of standards. Under the subscription agreement, in addition to the right of use of standards over the subscription period, the customer is entitled to quarterly updates for the duration of the subscription period.

Laboratory services (payment received for work not completed yet) - Where there is timing difference between receipt of the customer payment and completion of work which leads to an overlap between two financial years, this results in a contract liability equal to the amount recorded in payment amount for which performance obligation has not been satisfied.

Certification - This applies to upfront payment where the permit period overlaps over two financial periods and upfront payment for pre-permit assessment where payment is received at year-end but performance obligation not yet fulfilled. This results in a contract liability equal to the amount recorded in payment amount for which performance obligation has not been satisfied.

Training - This applies to payment received where training has not been conducted yet or training has been conducted but a certificate has not been issued yet (i.e. in both cases performance obligation has not been fulfilled). This will result in a contract liability equal to the amount recorded in payment amount for which performance obligation has not been satisfied.

1.19 Translation of foreign currencies

Functional and presentation currency

Items included in the annual financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated annual financial statements are presented in Rand which is the group functional and presentation currency.

The following are approximate values at reporting date for selected currencies:

	2020	2019
Euro	19,80	16,44
Pound Sterling	22,19	19,19
US Dollar	17,91	14,63
Swiss Franc	18,71	14,69

Foreign currency transaction

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 the end of the reporting period:
- foreign currency monetary items are translated using the closing rate

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 annual financial statements are recognised in profit or loss in the period in which they arise.

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

1.20 Other expenditure

Operating expenses are presented by function and are recognised in profit and loss upon utilisation of the service or as incurred. Significant expenses relating to operating activities of the Group and intended for earning income are presented in separate lines by their nature in the statement of profit and loss.

1.21 Other income

Other income relates to income received other than from the normal business activities of the company. Significant other income relating to other activities in the company are disclosed in a separate note in the annual financial statements.

1.22 Other components of equity

Other components of equity is the gains and losses associated to the post-employment healthcare benefit directly recognised in other comprehensive income.

1.23 Fruitless and wasteful and irregular expenditure

Fruitless and wasteful expenditure as required by the PFMA is accounted for according to the nature of the expense and disclosed separately in the AFS. Measures are implemented to ensure that such expenditure does not re-occur and where possible the expenditure is recovered. Any cases of a criminal nature are reported to the responsible authorities.

When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof.

Where such impracticality exists, the reasons thereof must be provided in the notes. Irregular expenditure must be removed from the notes when it is either:

- condoned by the National Treasury or the relevant authority;
- it is transferred to receivables for recovery; or
- it is not condoned and is irrecoverable.

A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised when the receivable is settled or subsequently written off as irrecoverable.

1.24 Related party transactions

The Group, in the ordinary course of business, entered into various sale and purchase transactions on an arm's length basis at market rates with related parties. The SABS is presumed to be related to all other government entities within the national sphere by virtue of its classification as a national public entity. Only transactions carried out within the ambit of the Department of Trade and Industry and transactions not carried out on an arms' length basis are disclosed. Key personnel are limited to the Board and the Executives only.

1.25 Events after the reporting date

Recognised amounts in the Annual Financial Statements are adjusted to reflect significant events arising after the reporting date, but before the financial statements are authorised for issue, provided there is evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note if applicable. Refer to note 34.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
1. REVENUE				
Revenue from contracts with customers				
Sale of Standards	31 665	31 162	31 665	31 162
Laboratory Services	150 298	181 918	-	-
Intercompany sale of standards	-	-	694	981
Management fees - Design Institute	761	1 772	761	1 772
Certification	249 974	281 430	-	-
Training	12 115	10 228	-	-
	444 813	**506 510**	**33 120**	**33 915**
Disaggregation of revenue from contracts with customers				
The group disaggregates revenue from customers as follows:				
Sale of goods				
Sale of Standards	14 861	16 924	14 861	16 924
Intercompany sale of standards	-	-	694	981
	14 861	**16 924**	**15 555**	**17 905**
Rendering of services				
Laboratory Services	150 298	181 918	-	-
Management fees - Design Institute	761	1 772	761	1 772
Certification	249 974	281 430	-	-
Training	12 115	10 228	-	-
	413 148	**475 348**	**761**	**1 772**
Other revenue				
Standards - subscription fees	16 804	14 238	16 804	14 238
Total revenue from contracts with customers	**444 813**	**506 510**	**33 120**	**33 915**
Timing of revenue recognition				
At a point in time	14 861	16 924	14 861	16 924
Sale of Standards				
Certification (Pre assessment audit)	9 251	23 850	-	-
Laboratory Services	150 298	181 918	-	-
Training	12 115	10 228	-	-
Intercompany sale of standards	-	-	694	981
	186 525	**232 920**	**15 555**	**17 905**
Over time				
Certification	240 723	257 580	-	-
Standards - Subscription fees	16 804	14 238	16 804	14 238
Management fees - Design Institute	761	1 772	761	1 772
	258 288	**273 590**	**17 565**	**16 010**
Total revenue from contracts with customers	**444 813**	**506 510**	**33 120**	**33 915**

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
1. REVENUE (continued)				

1. REVENUE (continued)

Transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the reporting date

The transaction price which has been allocated to performance obligations which are unsatisfied or partially unsatisfied at the reporting date are presented below. Due to the varied nature of work performed in the Laboratory Services division it will be very onerous to reliably categorise the expected completion date for the unsatisfied performance obligations. Depending on the nature of the tests performed, completion can range from weeks to over two years. However for the Certification division unsatisfied performance obligations are expected to be completed within one year from reporting date:

	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2020 R'000
Transaction price allocated to (to be recognised in future periods):				
Certification	7 756	8 451	-	-
Laboratory Services	10 377	10 951	-	-
	18 133	19 402	-	-

Group performance obligations

Sales of Standards - Revenue from sale of standards is recognised at the point in time when control of the asset is transferred to the customer, generally on collection/delivery of the Standard. The invoice is also raised at this time. The courier costs are expensed when incurred. Standards are invoiced at the point in time when control of the asset is transferred to the customer. For cash customers and credit customers payment is 30 days from date of invoice.

Subscription Standard Sales - Customers are provided with the right to access standards which falls under the rules of the "right to license agreements" under IFRS 15. The right to access results in revenue being recognised on a straight line basis over the term of the contract (period of 1 year). As the amount of work required to perform under these contracts does not vary significantly from month-to-month, the straight-line method provides a faithful depiction of the transfer of goods or services. Standard Subscriptions are invoiced to customers and payable 30 days from date of invoice. The client receives the right to access standards for the duration of the subscription period and the Group's performance obligations are satisfied over time as this right to access is provided.

Training - The Group recognises revenue when its performance obligations are met. This occurs at a point in time when the course is complete. Training services are invoiced once the course has been completed thus when the Group has satisfied its performance obligations. For credit customers payment is 30 days from date of invoice.

Pre Assessment Audit (Certification) - The Group recognises revenue from the pre-assessment audit once the audit has been completed, thus at a point in time. Work performed under the pre-assessment audit is invoiced upon completion of the audit. For credit customers payment is 30 days from date of invoice.

The Right of Use of Mark Scheme (Certification) - The Group recognises revenue from the right of use of the mark scheme on a straight line basis over a period of 3 years. As the amount of work required to be performed under these contracts do not vary significantly from month-to-month, the straight-line method provides a faithful depiction of the transfer of goods or services. There are compliance audits performed by the Group over the period of the contracts. Billing relating to the right of use under the mark scheme varies from monthly to quarterly to annually. For credit customers payment is 30 days from date of invoice.

Laboratory Services - The Group provides laboratory services to customers. The laboratory services comprise of Product and Witness testing. The revenue for this laboratory services is recognised at a point in time upon completion of the performance obligation. Laboratory services are invoiced upfront and payable in 30 days except for cash customers where payment is due on date of invoice.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2. OTHER INCOME				
Includes:				
Royalties received	-	-	2 503	73
Rental income on investment property	16 161	15 874	16 161	15 874
Bad debts recovered	424	26	2	-
Foreign exchange gains	5 963	220	84	24
Deferred income recognised	4 777	-	4 777	-
Intercompany rentals received in respect of:				
- Land and buildings	-	-	56 797	54 189
- Equipment	-	-	17 051	10 160
Income relating to SMME's	1 234	4 610	-	-
Dividends received from investments	1 507	5 719	1 507	5 719
Management fees relating jobs fund programme	1 315	5 287	1 315	5 287
Income relating to Design Institute	891	4 052	891	4 052
Income recovery dosimeters	7 060	10 933	-	-
Corporate services recovery	-	-	18 336	26 215
Deferred income in respect of government grants	7 697	6 292	4 031	3 309
Income recognised in local content verification	18 161	11 251	-	-
Profit on disposal of fixed assets	-	-	-	1 063
3. EMPLOYEE BENEFIT EXPENDITURE				
Salaries and wages	463 196	423 662	199 499	177 796
Medical aid and other employment benefits	42 327	39 571	16 379	15 114
Pension contributions	34 619	33 579	15 618	15 179
Board emoluments (Note 30)	2 601	8 285	2 601	8 285
	542 743	505 097	234 097	216 374
Post-employment healthcare benefits (Note 22)	8 566	8 556	5 364	5 248
Long service leave benefits (Note 22)	1 165	2 716	624	1 667
	552 474	**516 369**	**240 085**	**223 289**

4. OTHER EXPENDITURE

	Note	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2020 R'000
Includes:					
Auditors remuneration - external auditors		5 826	4 178	4 003	2 749
Bad debts					
- Trade receivables written-off		9 430	35 427	272	462
- Allowance/(reversal of allowance) for expected credit losses		7 776	(3 289)	861	670
Computer software and license fees		9 936	9 975	9 929	9 975
Consumables		20 623	22 184	1 469	6 025
Direct operating expenses relating to investment properties that:					
- Generated rental income		15 139	17 982	21 311	20 520
- Did not generate rental income		2 484	2 255	3 497	2 573
Impairment of investment in subsidiary	13	-	-	-	54 252
ECL allowance on loan	16	-	-	701	14
Loss on disposal of property, plant and equipment		2 278	1 106	1 462	-
Realised foreign exchange losses		3 220	330	954	352
Non-executive board member emoluments	30	224	678	224	641
Fair value adjustment on investments through profit and loss		9 927	10 470	9 927	10 470
Insurance		2 311	2 043	2 311	2 038
Legal costs		2 524	3 326	2 524	3 326
Membership fees		7 262	4 433	6 559	3 766
Municipal services		47 455	49 031	45 728	47 710
Postal services		2 481	3 084	730	804
Rentals in respect of operating leases					
- Land and buildings		-	3 180	-	-
- Equipment		-	1 935	-	558
Reversal of impairment of investment in subsidiary		-	-	(133 880)	-
Gain on settlement of loan to group companies		-	-	(6 405)	-
Fair value adjustment on new loan to group companies		-	-	6 066	2 630
Training		4 104	2 357	3 983	1 997

5. INTEREST INCOME

	Note	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2020 R'000
Bank		9 533	790	2 476	787
Money market investments, short-term deposits and investments at fair value through profit and loss		43 119	29 331	43 119	29 331
Interest on loans to group companies		-	-	-	8 408
Total interest income		**52 652**	**30 121**	**45 595**	**38 526**

6. FINANCE COSTS

	Note	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2020 R'000
Leases liabilities		2 329	-	1 024	-
Interest on banking facilities and late payments		16	48	15	48
Total finance costs		**2 345**	**48**	**1 039**	**48**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

7. TAXATION

Major components of the tax expense

Reconciliation of the tax expense

The charge for the year can be reconciled to the statement of profit and loss as follows:.

Accounting profit	47 564	1 384	-	-
Accounting profit before income tax	**47 564**	**1 384**	**-**	**-**
Taxation at 28% (2019: 28%)	13 318	388	-	-
Tax effect of adjustments on taxable income				
Exempt income and expenses	(1 027)	(835)	-	-
Non-deductible expenditure	102	79	-	-
Unrecognised deferred tax portion	(12 393)	368	-	-
Taxation	-	-	-	-
Deferred tax expense recognised directly in other comprehensive income	**(912)**	**(1 152)**	**-**	**-**

Exempt income and expenses relate to the deferred income on government related grants and the expenditure incurred on earmarked projects. SABS has been exempted from income tax of the provisions of section 10(1)(cA)(I) of the Income Tax Act.

The SABS note has been adjusted to reflect the exemption. The Group figures disclosed represents the SABS Commercial SOC Ltd taxation.

No provision has been made for 2020 (2019: none) deferred tax as the group has no taxable income.

8. DISCONTINUED OPERATIONS

Previously the Regulatory Division, through the Global Conformity Services (GCS) Namibia (Pty) Ltd was the responsible inspection body for the European Union in Namibia. The split of SABS into two entities was agreed with the Namibian authorities and the Namibian Standards Institute (NSI) took over the operations of the GCS Namibia (Pty) Ltd. The activities of GCS Namibia (Pty) Ltd have been accounted for as a discontinued operation. Ministerial approval was granted to transfer the Walvis Bay immovable property and the movable assets in Namibia to the NSI. An agreement was entered into between SABS, GCS Namibia (Pty) Ltd and the NSI in accordance with which the movables assets in Namibia were transferred to the NSI on 31 March 2010. SABS has a property in Luderitz and permission was granted for the disposal of the property. SABS sold the property and the transfer of the property is finalised. The company is dormant and was liquidated on 20 February 2020.

Non-current assets				
Current liabilities				
Trade and other payables	-	94	-	-
Liabilities of disposal group classified as held for sale	-	94	**-**	**-**
Net liabilities directly associated with assets classified as held for sale	-	(94)	-	-

(N$1 equal R1)

9. PROPERTY, PLANT AND EQUIPMENT

Group	2020			2019		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	350 700	-	350 700	350 700	-	350 700
Buildings	299 842	(114 030)	185 812	289 231	(108 025)	181 206
Furniture and office equipment	107 563	(90 931)	16 632	106 308	(84 702)	21 606
Motor vehicles	1 432	(1 175)	257	1 432	(1 109)	323
Laboratory equipment	265 449	(191 127)	74 322	259 645	(179 766)	79 879
Artwork	1 009	(235)	774	1 009	(194)	815
Capital - Work-in-progress	57 827	-	57 827	53 171	-	53 171
Total	**1 083 822**	**(397 498)**	**686 324**	**1 061 496**	**(373 796)**	**687 700**

SABS	2020			2019		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	350 700	-	350 700	350 700	-	350 700
Buildings	54 806	(24 479)	30 327	44 831	(24 234)	20 597
Furniture and office equipment	82 279	(72 178)	10 101	82 621	(67 087)	15 534
Motor vehicles	139	(94)	45	139	(80)	59
Laboratory equipment	8 461	(4 756)	3 705	7 295	(4 137)	3 158
Artwork	1 000	(230)	770	1 000	(190)	810
Capital - Work-in-progress	49 667	-	49 667	47 388	-	47 388
Total	**547 052**	**(101 737)**	**445 315**	**533 974**	**(95 728)**	**438 246**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

9. PROPERTY, PLANT AND EQUIPMENT continued

Reconciliation of property, plant and equipment - Group - 2020

	Opening balance	Additions	Assets category transfers	Disposals	Work-in-progress capitalisation	Work-in-progress expensed $	Depreciation	Total
Land	350 700	-	-	-	-	-	-	350 700
Buildings	181 206	-	-	(855)	13 481	-	(8 020)	185 812
Furniture and office equipment	21 606	4 927	(46)	(269)	-	-	(9 586)	16 632
Motor vehicles	323	-	-	-	-	-	(66)	257
Laboratory equipment	79 879	-	46	(553)	14 160	-	(19 210)	74 322
Artwork	815	-	-	-	-	-	(41)	774
Capital - Work-in-progress	53 171	34 547	-	-	(27 641)	(2 250)	-	57 827
Total	**687 700**	**39 474**	**-**	**(1 677)**	**-**	**(2 250)**	**(36 923)**	**686 324**

Reconciliation of property, plant and equipment - Group - 2019

	Opening balance	Additions	Disposals	Work-in-progress capitalisation	Work-in-progress expensed $	Depreciation	Total
Land	350 700	-	-	-	-	-	350 700
Buildings	184 460	-	(802)	4 791	-	(7 243)	181 206
Furniture and office equipment	28 546	3 348	(101)	-	-	(10 187)	21 606
Motor vehicles	392	-	-	-	-	(69)	323
Laboratory equipment	90 162	-	(296)	8 328	-	(18 315)	79 879
Artwork	855	-	-	-	-	(40)	815
Capital - Work-in-progress	58 242	18 249	-	(13 119)	(10 201)	-	53 171
Total	**713 357**	**21 597**	**(1 199)**	**-**	**(10 201)**	**(35 854)**	**687 700**

9. PROPERTY, PLANT AND EQUIPMENT continued

Reconciliation of property, plant and equipment - SABS - 2020

	Opening balance	Additions	Assets trans-ferred (to)/from subsidiary	Disposals	Work-in-progress capitalisation	Work-in-progress expensed	Depreciation	Total
Land	350 700	-	-	-	-	-	-	350 700
Buildings	20 597	-	26	(540)	13 159	-	(2 915)	30 327
Furniture and office equipment	15 534	1 431	128	(208)	-	-	(6 784)	10 101
Motor vehicles	59	-	-	-	-	-	(14)	45
Laboratory equipment	3 158	-	-	(32)	1 314	-	(735)	3 705
Artwork	810	-	-	-	-	-	(40)	770
Capital - Work-in-progress	47 388	20 988	(3 527)	-	(14 473)	(709)	-	49 667
Total	**438 246**	**22 419**	**(3 373)**	**(780)**	**-**	**(709)**	**(10 488)**	**445 315**

Reconciliation of property, plant and equipment - SABS - 2019

	Opening balance	Additions	Assets trans-ferred (to)/from subsidiary	Disposals	Work-in-progress capitalisation	Work-in-progress expensed	Depreciation	Total
Land	350 700	-	700	-	-	-	-	350 700
Buildings	22 012	-	682	(46)	168	-	(2 219)	20 597
Furniture and office equipment	20 343	2 957	(133)	(72)	-	-	(7 561)	15 534
Motor vehicles	73	-	-	-	-	-	(14)	59
Laboratory equipment	3 069	-	388	(3)	267	-	(563)	3 158
Artwork	850	-	-	-	-	-	(40)	810
Capital - Work-in-progress	53 450	4 766	(331)	-	(435)	(10 062)	-	47 388
Total	**449 797**	**7 723**	**1 306**	**(121)**	**-**	**(10 062)**	**(10 397)**	**438 246**

Work-in-progress expensed relates to expenses incurred that did not result in an asset or did not meet the definition of an asset.

Registers with details of land and buildings are available for inspection by shareholders at the registered office of the company and its respective subsidiaries.

Capital work-in-progress for the Group includes R9.6 million for new laboratory equipment and R48.2 million for infrastructure refurbishment projects.

There were no assets that were pledged as security.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

10. RIGHT OF USE ASSETS

The group leases several vehicles. The average lease term is 3 years. The group leases several buildings. The average lease term is 3 years. The group has one license lease. The average lease term is 2 years
Details pertaining to leasing arrangements, where the group is lessee are presented below:

The group adopted IFRS 16 for the first time in the current financial period. Comparative figures have been accounted for in accordance with IAS 17 (refer to note 28). The information presented in this note for right-of-use assets therefore only includes the current period. Refer to note 36 for IFRS 16 adoption impact. The expenditures on these leases were included as part of note 4 for the prior year.

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
Net carrying amounts of right-of-use assets				
The carrying amounts of right-of-use assets are as follows:				
Buildings	8 342	-	-	-
Motor vehicles	3 391	-	1 843	-
Computer licenses	4 016	-	4 016	-
	15 749	**-**	**5 859**	**-**
Depreciation recognised on right-of-use assets				
Depreciation recognised on each class of right-of-use assets, is presented below.				
Buildings	2 551	-	-	-
Motor vehicles	869	-	411	-
Computer licenses	3 398	-	3 398	-
	6 818	**-**	**3 809**	**-**
Other disclosures				
Interest expense on lease liabilities	2 329	-	1 024	-
Leases of low value assets included in operating expenses	932	-	300	-
Lease liabilities				
The carrying amounts of lease liabilities is as follows:				
Liabilities	22 662	-	9 663	-
Interest	2 329	-	1 024	-
Payment	(8 412)	-	(4 881)	-
	16 579	**-**	**5 806**	**-**
Non-current liabilities	9 004	-	1 207	-
Current liabilities	7 575	-	4 599	-
	16 579	**-**	**5 806**	**-**

Exposure to liquidity risk

Refer to note 29 Financial instruments and risk management for the details of liquidity risk exposure and management. The maturity analysis of lease liabilities are disclosed in note 29.

11. INVESTMENT PROPERTY

Group	2020			2019		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	12 984	(5 454)	7 530	12 984	(5 250)	7 734

SABS	2020			2019		
Investment property	239 369	(86 504)	152 865	239 460	(82 029)	157 431

Reconciliation of investment property - Group - 2020

	Opening balance	Depreciation	Total
Investment property	7 734	(204)	7 530

Reconciliation of investment property - Group - 2019

	Opening balance	Depreciation	Total
Investment property	7 937	(203)	7 734

Reconciliation of investment property - SABS - 2020

	Opening balance	**Disposals**	**Depreciation**	**Total**
Investment property	157 431	(83)	(4 483)	152 865

Reconciliation of investment property - SABS - 2019

	Opening balance	Additions	Depreciation	Total
Investment property	156 088	5 751	(4 408)	157 431

Investment properties and significant components thereof are stated at the costs thereof. At the reporting date, the investment properties were valued by IKG (Pty) Ltd an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued (2019: management's assessment). The fair value of investment properties was R30.3 million for the Group and R739.4 million for SABS. (2019 R15.3 million for the Group and R403,0 million for SABS). Refer to notes 2 and 4 for income and expenditure related to investment properties.There are no restrictions imposed on the realisability of investment properties.

Investment properties for SABS consist of :
- A property in East London
- All the buildings on the Groenkloof Campus except for the administration building Block A

Investment properties for the Group consist of :
- Buildings N, R and Z including the parking located on the Groenkloof Campus
- A property in East London

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

12. INTANGIBLE ASSETS

Group	2020			2019		
	Cost	Accumulated Carrying value amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software, other	71 931	(61 648)	10 283	79 088	(63 296)	15 792
Capital work in progress	3 130	-	3 130	4 289	-	4 289
Total	**75 061**	**(61 648)**	**13 413**	**83 377**	**(63 296)**	**20 081**

SABS	2020			2019		
	Cost	Accumulated Carrying value amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software, other	41 892	(35 214)	6 678	49 459	(40 118)	9 341
Capital work in progress	3 130	-	3 130	4 289	-	4 289
Total	**45 022**	**(35 214)**	**9 808**	**53 748**	**(40 118)**	**13 630**

Reconciliation of intangible assets - Group - 2020

	Opening balance	Additions	Disposals	Capital work in progress transfers	Work in progress expensed $	Amortisation	Total
Computer software, other	15 792	410	(604)	1 135	-	(6 450)	10 283
Capital work in progress	4 289	872	-	(1 135)	(896)	-	3 130
	20 081	1 282	(604)	-	(896)	(6 450)	**13 413**

Reconciliation of intangible assets - Group - 2019

	Opening balance	Additions	Work in progress capitalisation	Work in progress expensed $	Amortisation	Total
Computer software, other	20 164	-	2 673	-	(7 045)	15 792
Capital work in progress	4 235	3 100	(2 673)	(373)	-	4 289
	24 399	**3 100**	**-**	**(373)**	**(7 045)**	**20 081**

12. INTANGIBLE ASSETS (continued)

Reconciliation of intangible assets - SABS - 2020

	Opening balance	Additions	Capital work in progress capitalisation	Disposals	Work in progress expensed $	Amortisation	Total
Computer software, other	9 341	-	1 135	(604)	-	(3 194)	6 678
Capital work in progress	4 289	872	(1 135)	-	(896)	-	3 130
	13 630	**872**	**-**	**(604)**	**(896)**	**(3 194)**	**9 808**

Reconciliation of intangible assets - SABS - 2019

	Opening balance	Additions	Work in progress capitalisation	Work in progress expensed $	Amortisation	Total
Computer software, other	10 476	-	2 595	-	(3 730)	9 341
Capital work in progress	4 235	3 022	(2 595)	(373)	-	4 289
	14 711	**3 022**	**-**	**(373)**	**(3 730)**	**13 630**

$ - Work-in-progress expensed relates to expenses incurred that did not result in an asset or did not meet the definition of an asset.

There are no restrictions imposed on the realisability of intangible assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

		Group		SABS	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000

13. INVESTMENT IN SUBSIDIARIES

The entity's principal subsidiary is:

		SABS	
		2020 R'000	2019 R'000
Name **Ownership** 100%			
Opening balance		-	-
Below market portion of loan to group companies adjustment of loan	16	136 960	54 252
Impairment of investment in subsidiary reversed on derecognition		133 880	-
Below market value reversal on derecognition on settlement of loan		(270 840)	- (54 252)
Impairment of investment in subsidiary		-	-
		-	**-**

The results of SABS Commercial SOC Ltd for the financial years can be summarised as follows:

	SABS	
	2020 R'000	2019 R'000
Revenue	412 387	473 575
Other income	38 993	32 547
Grant from holding entity	123 565	20 000
Expenditure	(509 860)	(524 742)
Operating profit/(loss)	**65 085**	**1 380**
(Finance costs)/interest received	(17 521)	3
	47 564	**1 383**

14. INVESTMENT AT FAIR VALUE THROUGH PROFIT AND LOSS

		Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
Opening balance		312 583	430 525	312 583	430 525
Additions (net of costs)		5 804	24 528	5 804	24 528
Disposals		(208 000)	(132 000)	(208 000)	(132 000)
Losses on financial assets measured at FVTPL	4	(9 927)	(10 470)	(9 927)	(10 470)
Non-current portion		**100 460**	**312 583**	**100 460**	**312 583**

These financial assets measured at FVTPL comprise:

Equity instruments	100 460	312 583	100 460	312 583

These investments are held in various diversified portfolios and are intended to create a base of plan assets to cover post-employment medical benefits and capital expansions.

15. DEFERRED TAX

	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
Temporary differences				
Accelerated wear and tear for tax purposes on property, plant and equipment	(12 715)	(14 601)	-	-
Intangible assets	(887)	(1 767)	-	-
Right of use assets	(49 204)	-	-	-
Lease liabilities	53 589	-	-	-
Assessed losses	9 594	22 928	-	-
Other deductible temporary differences				
Employee related provisions	13 480	13 940	-	-
Expected credit losses allowance	11 114	10 266	-	-
Income received in advance	9 617	14 113	-	-
Discounting of debtors and straightlining of assets	(22)	(6)	-	-
	34 566	44 873	-	-
Unrecognised portion of deferred tax asset	(36 890)	(46 285)	-	-
Deferred tax liability	**(2 324)**	**(1 412)**	**-**	**-**
Deferred tax movement				
The movement for the year in the Group's deferred tax positions was as follows:				
Opening balance	(1 412)	(260)	-	-
Temporary differences on property, plant and equipment	1 885	1 155	-	-
Temporary differences on intangible assets	879	671	-	-
Temporary differences on right of use assets	(49 204)	-	-	-
Temporary differences on lease liabilities	53 589	-	-	-
Temporary differences on employee related provisions	(460)	(6 135)	-	-
Taxable / (deductible) temporary difference movement investment property at fair value	(4 495)	(2 175)	-	-
Temporary differences on tax losses	(21 045)	11 412	-	-
Reversing temporary differences on other deductible temporary differences	(15)	(18)	-	-
Temporary differences on expected credit losses allowance	847	(4 368)	-	-
Unrecognised deferred tax asset	17 107	(1 694)	-	-
Closing balance	**(2 324)**	**(1 412)**	**-**	**-**
Deferred tax liability				
Balance at the beginning of the year	(1 412)	(260)	-	-
Current year charge				
- per the statement of comprehensive income	(912)	(1 152)	-	-
Closing balance	**(2 324)**	**(1 412)**	**-**	**-**
Reflected in the statement of financial position as follows: Deferred tax liabilities	(2 324)	(1 412)	-	-
Deferred tax liability	**(2 324)**	**(1 412)**	**-**	**-**

At the reporting date the Group has unutilised tax losses of R34.3 million (2019: R81.9 million) available for offset against future taxable profits. No provision has been made for deferred tax as the group has no taxable income (2019: None).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

16. LOANS TO GROUP COMPANIES

SABS

Loans to SABS Commercial SOC Ltd

		SABS	
		2020 R'000	2019 R'000
Opening balance		6 414	83 029
On initial application of IFRS 9			
- Below market value adjustment		-	(79 628)
- ECL allowance		-	(16)
Balance at 1 April		6 414	3 434
Increase in loan to SABS Commercial SOC Ltd		153 852	59 311
Loss on recognition of new loan refer to note 13		(6 066)	(2 628)
Repayment of loan by SABS Commercial SOC Ltd		(202 000)	-
Interest income		1 678	612
Below market adjustment	13	(136 960)	(54 252)
Loan balance		(183 082)	6 428
- ECL allowance		(701)	(14)
Below market value reversal on derecognition of old loan		270 840	-
Gain on settlement of loan		6 405	-
Closing balance		**93 462**	**6 414**

The interest on the loan is rated by mutual agreement between the holding entity and subsidiary which was charged at zero % during the financial year (for 2018 and 2019). Interest payable as of 1 April 2020 will be charged at prime rate plus 50 basis points. The loan is repayable 367 days after demand, but no later than 31 March 2050. Notwithstanding that, SABS Commercial shall be entitled to make early repayments and settle the loan in full or in part at any time before March 2050. The loan facility shall not exceed R500.0 million.

A fair value assessment of the loan to SABS Commercial to determine the 'below-market' element and a 'loan' element split was calculated by discounting the expected loan repayments to the present date using a discount rate of 9.25% (2019: 10.5%) over a period up to 31 March 2050. The residual part of the loan receivable is accounted for as a financial asset measured at amortised cost while the below-market element is accounted for as part of investment in subsidiary measured at cost less accumulated impairments.

The ECL is a product of the probability of default and the loss given default. The midpoint of 45% as LGD on the South African acceptable range of LGD for Small to Medium sized enterprises such as SABS Commercial which is a range between 40-50% as the maximum loss that an entity would experience during a loss event. Given that the counterparty in the intercompany loan being assessed is a South African government backed public entity – SABS Commercial, there is insufficient data available to accurately assess and calculate a loss rate or PD from historical performance. Instead the PD estimate is arrived at by using the information and credit risk ratings available from Standard and Poor's (S&P). The PD is estimated from the credit risk rating provided by S&P which is mapped to a PD.

Reconciliation of provision for impairment of loans to group companies

Opening balance	30	-
Change on initial adoption of IFRS 9	-	16
As at 1 April	30	16
ECL allowance	701	14
	731	**30**

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000

17. INVENTORIES

Finished goods	3 993	3 139	3 993	3 139
Obsolete stock written-off	(46)	(14)	(46)	(14)
	3 947	**3 125**	**3 947**	**3 125**

No amounts other than obsolete stock were recognised as expense during the year (2019:Nil).

18. TRADE AND OTHER RECEIVABLES

Trade receivables	195 858	240 411	17 222	17 238
Less: ECL allowance of trade receivables	(54 880)	(49 985)	(1 958)	(1 098)
Trade receivables	140 978	190 426	15 264	16 140
Deposits and payments in advance	7 776	8 277	7 378	7 944
Employee related debtors	393	761	60	72
Other receivables	8 169	9 038	7 438	8 016
	149 147	**199 464**	**22 702**	**24 156**

Trade receivables are discounted at an effective rate of 6,50% (2019: 6,75%). No interest is charged on overdue accounts. The credit period is 30 days from date of invoice. The carrying amounts approximate their fair value. No individual customer represents more than 10% of the Group's trade receivables.

The impairment of trade receivables has been determined by reference to expected credit loss and the current economic environment. No ECL allowance have been determined for other receivables as there is no history of default. The Group applied the simplified approach and the results of the model adopted was utilised as the base case with adjustments thereafter that affected the base ECL as discussed below.

The group identified debt that has an extremely high probability of becoming bad debt write offs in the next financial year. It was considered prudent to include all such amounts at a 100% ECL. These includes:

- Prescribed invoices that have exceeded the three year period of prescription
- Adverse history of debts - customers that have been placed into provisional liquidation, final liquidation or business rescue
- Foreign withholding tax - Instances where foreign governments withhold a certain percentage of payments as part of their fiscal policy
- Specific government debt - Included last year at 100% and circumstances did not change

The above adjustments were implemented by overriding the probability default (PD), Loss Given Default (LGD) and discounting factor (DF) to 100.00%.
The Group identified that all invoices included on the year end credit note accrual should not be included in the ECL calculation. These are not included as they will be credited and as such there is no possibility of them eventually being written off as a bad debt in the next financial year.

Within the context of ECL model the above was implemented by overriding the probability default (hereafter referred to as PD), Loss Given Default (hereafter referred to as LGD) and discounting factor (DF) all to 0.00%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

18. TRADE AND OTHER RECEIVABLES (continued)

The group implemented a methodology to enable the ECL to be adjusted for the Covid-19 impact. Three separate ECL's were calculated in based on three scenarios and a percentage weighting was assigned to the overall ECL of each scenario. The sum total of these three ECL's would form the final ECL which were:

- The initial scenario is the 'base scenario - weighting of 20% applied - the pandemic is quickly contained and the economy bounces back quickly. There would be no significant deviation to the expected credit losses calculated using the basic approach methodology. The Group is expected to see the same level of ECL as calculated in the basic approach.
- Slow recovery - weighting of 50% applied - pandemic takes longer to contain, and the economy is slower to recover. The group was confident that due to SA implementing the initial lockdown early that this would help prevent the sort of exposure had on the other large first world economies.
- Long recovery - weighting of 30% applied - the pandemic endures even longer, and the recovery thereafter is spread over a longer period than in the slow recovery scenario.

The Covid-19 impact was calculated by adding an adjustment to both PD and LGD that is based on GDP contraction forecasts. The group has a high volume customer base that spans all industry sectors. As such GDP is considered the most robust economic indicator to assess Covid-19 impact.

The Covid-19 impact adjustment applied to PD was calculated for each scenario using the following methodology:
- The SA-TIED paper quarterly rates for the contraction of GDP compared to pre-crisis levels for each scenario were used to calculate a monthly GDP contraction rate.
- These monthly rates were then applied to each month for each ageing category of debt until the point where that particular ageing category had reached the default point of 150 days.
- The total average monthly effect of these monthly GDP contraction rates on each ageing bracket was then added directly to the base rate PD's for both scenarios to give an adjusted/increased PD that would be applied to the ECL calculation.

The Covid-19 impact adjustment applied to LGD was calculated for each scenario using the following methodology:
- An annual GDP contraction compared to pre-crisis levels was calculated.
- The above calculation was undertaken by using the GDP contraction rates forecast in the SA-TIED Paper for Quarter 1,Quarter 2 and Quarter 3 of financial year 2020/21 and then adding a Group forecast for Quarter 4. The 0% contraction rate used by the Group for Q4 was estimated by taking into consideration the rapid quarterly decline in the contraction rate forecasted in the SA-TIED document for both the slow and long recovery scenario's and assuming the continuation of such a trend.
- The annual contraction for each scenario was then added directly to the LGD.

ECL allowance of trade receivables:

	Group R'000	SABS R'000
As at Saturday, 31 March 2018	(68 548)	(868)
Change on initial application of IFRS 9	15 275	441
Restated balance at 1 April 2018	(53 273)	(427)
Amount written off	35 427	462
Allowance for expected credit losses	(32 139)	(1 133)
As at 31 March 2019	**(49 985)**	**(1 098)**
Amount written off	9 430	272
Allowance for expected credit losses	(14 325)	(1 132)
As at 31 March 2020	**(54 880)**	**(1 958)**

Age analysis of trade and other receivables

As at 31 March, the age analysis of trade and other receivables is as follows:

	Total	Not past due	Past due			
			> 30 days	> 60 days	>90 days	> 120 days
Group						
2020						
Carrying value (R'000)	141 371	34 937	19 332	12 917	3 374	73 465
	100 %	25 %	14 %	9 %	2 %	52 %
Impairment (R'000)	54 880	11 888	3 452	2 914	1 012	35 614
	100 %	22 %	6 %	5 %	2 %	65 %
2019						
Carrying value (R'000)	191 187	45 015	22 352	11 660	12 481	100 876
	100 %	24 %	12 %	6 %	7 %	53 %
Impairment (R'000)	49 985	1 832	1 397	1 002	1 491	44 263
	100 %	4 %	3 %	2 %	3 %	89 %

		Total	Not past due	Past due			
				> 30 days	> 60 days	>90 days	> 120 days
Group							
2020							
Carrying value (R'000)		15 324	6 924	3 554	436	454	3 956
	%	100 %	45 %	23 %	3 %	3 %	26 %
Impairment (R'000)		1 958	440	338	55	76	1 049
	%	100 %	22 %	17 %	3 %	4 %	54 %
2019							
Carrying value (R'000)		16 212	6 053	3 471	92	3 294	4 499
	%	100 %	37 %	21 %	1 %	20 %	28 %
Impairment (R'000)		1 103	179	135	3	250	536
	%	100 %	16 %	12 %	- %	23 %	49 %

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and actual bank balances and investments in money market instruments. Cash and cash equivalents comprise of the following:

	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
Cash on hand	15	21	10	16
Bank balances	375 212	148 484	237 113	76 111
Other cash and cash equivalents	156 661	110 656	156 612	110 606
	531 888	**259 161**	**393 735**	**186 733**

The Group has cash management facilities, resulting in all bank balances being swept daily into the accounts held by SABS and SABS Commercial SOC Ltd. Short-term deposits are made for varying periods between one day and six months, depending on the immediate operational cash requirements of the Group, and earn interest based on the respective short-term deposit dates. The funds are available on demand and there are no restrictions placed on the funds except for the portion of funds earmarked specifically and exclusively for the acquisition of assets for the group amounting to R270.0 million (2019: R201.9 million).

The Group has opted to not have access to any overdraft facilities. If the need arises to make use of overdraft facilities the Group will get the necessary approvals.

The carrying value of cash and cash equivalents approximates fair value due to the short-term maturity of these instruments.The effective interest rate of money market instruments is 6.79% at 31 March 2020 (2019: 7.31%).

20. GENERAL RESERVE

Ministerial approval has been granted to build up a general reserve to a maximum of 50% of one year's operational expenses, to provide for aspects such as replacement of assets and other contingencies. No funds have been transferred to the reserve during the year under review as it was not required.

	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
Balance	54 282	54 282	54 282	54 282

21. OTHER COMPONENTS OF EQUITY

	Note	Group 2020 R'000	Group 2019 R'000	SABS 2020 R'000	SABS 2019 R'000
Opening balance		-	-	-	-
Employee benefits					
Opening balance		18 849	13 044	12 172	9 330
Movements during the year					
Remeasurement of defined liability - Before tax - refer to note	22	6 586	6 957	3 328	2 842
Tax expense		(912)	(1 152)	-	-
Closing balance		**24 523**	**18 849**	**15 500**	**12 172**

22. EMPLOYMENT BENEFIT OBLIGATIONS

Defined contribution plans

Retirement benefits are provided for through the SABS Retirement Fund to which the organisation and its employees contribute. This fund operates as a defined contribution fund and is administered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956, as amended). Refer to note 3 for amounts recognised as an expense for defined contribution plans.

Post-employment healthcare benefits obligation

This obligation arises as SABS provides post-retirement medical assistance for current employees and pensioners of SABS who are members of Bestmed or Discovery Medical Scheme and are entitled to receive a contribution subsidy from SABS. All employees employed by the SABS before 1 September 1998 who belong to Bestmed or Discovery for at least ten years and retire after the age of 60 are entitled to a post-retirement medical subsidy. There are no plan assets for this liability.

The funding of the liability is being managed through the Group's investments (refer to note 14). Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2020.

If an eligible employee is younger than age 55, employed before 1 September 1998 and not on a medical aid at the valuation date, it is assumed that the employee will join the medical aid before retirement and will receive the post- retirement healthcare benefit. These employees were included in the liability. At the reporting date, the Group had 396 (2019: 401) pensioners and 110 (2019: 115) active employees, whilst the SABS had 331 (2019: 338) pensioners and 39 (2019: 42) active employees entitled to the benefit.

The total outstanding liability amounts to R73,8 million per the valuation performed during March 2020 (2019:R78.2 million)

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
Post-employment healthcare benefit				
Opening balance	78 170	82 748	51 155	53 848
Provisions made	8 566	8 556	5 364	5 248
Benefits paid	(6 370)	(6 177)	(5 199)	(5 099)
Remeasurements (Other component of equity)	(6 586)	(6 957)	(3 328)	(2 842)
Total liability	**73 780**	**78 170**	**47 992**	**51 155**
The amount recognised in the other comprehensive income is determined as follows:				
Actuarial gain/(loss) - change in financial assumptions	4 119	4 675	2 169	2 498
Experience gain	2 467	2 282	1 159	344
	6 586	**6 957**	**3 328**	**2 842**
The amount recognised in the statement of profit and loss is determined as follows:				
Current service cost	853	967	328	323
Interest cost	7 713	7 589	5 036	4 925
	8 566	**8 556**	**5 364**	**5 248**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

22. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Present value of the obligation				
Opening balance	78 170	82 748	51 155	53 848
Current service cost	853	967	328	323
Interest cost	7 713	7 589	5 036	4 925
Benefits paid	(6 370)	(6 177)	(5 199)	(5 099)
Actuarial (gain)/loss - change in financial assumptions	(4 119)	(4 675)	(2 169)	(2 498)
Experience (gain)/loss	(2 467)	(2 282)	(1 159)	(344)
Closing balance	**73 780**	**78 170**	**47 992**	**51 155**

Long service leave award obligation

The Group provides employees employed 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 Group's net obligation in this regard is the amount of future benefit that employees have earned in return for their services in current and prior periods. The obligation is valued annually by independent qualified actuaries. Any unrecognised actuarial gains or losses and past service costs are recognised immediately. There are no plan assets for this liability. At the reporting date, the Group and SABS had 313 (2019: 329) and 115 (2019: 121)) employees entitled to the benefit respectively.

The total outstanding liability amounts to R21.7 million per the valuation performed during March 2020 (2019: R24.4 million).

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	24 352	25 769	8 810	8 737
Provisions made	1 165	2 716	624	1 667
Benefits paid	(3 838)	(4 133)	(1 507)	(1 594)
Net liability in statement of financial position	21 679	24 352	7 927	8 810
Present value of funded obligations	**21 679**	**24 352**	**7 927**	**8 810**
The amount recognised in the statement of profit and loss is determined as follows:				
Current service cost	1 448	1 622	535	558
Interest cost	1 938	1 943	697	652
Actuarial loss - change in financial assumptions	(585)	(1 421)	(203)	(489)
Experience (loss)/gain	(1 636)	572	(405)	946
	1 165	**2 716**	**624**	**1 667**
Present value of the obligation				
Opening balance	24 352	25 769	8 810	8 737
Current service cost	1 448	1 622	535	558
Interest cost	1 938	1 943	697	652
Actuarial loss - change in financial assumptions	(585)	(1 421)	(203)	(489)
Experience gain/(loss)	(1 636)	572	(405)	946
Benefits paid	(3 838)	(4 133)	(1 507)	(1 594)
Closing balance	**21 679**	**24 352**	**7 927**	**8 810**

22. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Defined benefit obligation - current and non-current portion				
Non-current				
Post-employment healthcare benefit	66 991	71 465	42 429	45 639
Long service leave	18 345	20 738	6 633	7 427
	85 336	92 203	49 062	53 066
Current				
Post-employment healthcare benefit	6 789	6 705	5 563	5 516
Long service leave	3 334	3 614	1 294	1 383
	10 123	**10 319**	**6 857**	**6 899**

Significant assumptions

The significant assumptions used in determining post-employment healthcare benefit and long service leave obligations are discussed below:

Post employment healthcare benefit obligation

- **Discount rate assumption -** The Group have set the discount rate by taking the average yields from the zero- coupon SA Government bond curve with a duration of between 10 and 15 years. The recommended discount rate as at 28 February 2020 is 10.57%. The source is the Johannesburg Stock Exchange through Inet BFA data service. The duration for the previous valuation was between 10 and 15 years and resulted in a discount rate of 9.81%.
- **Future inflation assumption -** The general inflation assumption is used to estimate the base rate for determining the rate at which the future healthcare subsidies will increase. The Group have estimated the market's pricing of inflation by comparing the yields on nominal bonds to the yields on real bonds on the yield curve for bonds with a duration of between 10 and 15 years. The implied inflation assumption is therefore 6.42% per annum for future inflation. The source is the Johannesburg Stock Exchange through Inet BFA data service. The inflation assumption used for the previous valuation 6.29% .
- **Valuation Method -** The accrued service liability is calculated by valuing all future payments expected to be made in respect of the benefits accrued up to the valuation date. The liability for pensioners in receipt of the subsidy is fully accrued for. Allowance has been made in these calculations for increase in line with inflation.

Long service leave award obligation

- **Discount rate -** The discount rate required by IAS19R should be set with reference to the market yield on high quality corporate bonds. However, where there is no deep market in corporate bonds, which is the case in South Africa, IAS19R requires the discount rate to be based on yields of government bonds. IAS19R places emphasis on matching the discount rate to the duration of the liabilities. The discount rate have been set by using the best-fit discount rate as at 28 February 2020, based on the yields from the zero-coupon government bond curve. The best fit has been determined considering the cashflow-weighted duration of the liabilities, which is approximately 5 years. The recommended discount rate is 7.70%. The source is the Johannesburg Stock Exchange through Inet BFA data service. The duration for the previous valuation was 6 years and resulted in a discount rate of 8.36%.
- **Future salary inflation assumption -** The Group assumed that future salary inflation will exceed general inflation by 2% per annum. The implied salary inflation assumption is therefore 5.84% per annum.
- **Valuation Method -** The accrued service liability is calculated by valuing all future leave and payments expected to be made in respect of benefits accrued up to the valuation date. Allowance has been made in these calculations for salary increase where applicable and for investment returns up to the date that the benefit is received.

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FOR THE YEAR ENDED 31 MARCH 2020

22. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	2020	2019
Discount rate per annum		
Post employment healthcare benefit obligation	10.57%	9,81 %
Long service leave award obligation	7,70 %	8,36 %
Subsidy inflation		
Post employment healthcare benefit obligation	6,42 %	6,29 %
Salary inflation		
Long service leave award obligation	5,84 %	6,97 %
General inflation		
Post employment healthcare benefit obligation	6,42 %	6,29 %
Long service leave award obligation	3,84 %	4,98 %
Pre-retirement mortality		
Post employment healthcare benefit obligation	SA85-90	SA85-90
	(Light) rated down 1 year for males and females	(Light) rated down 1 year for males and females
Expected retirement age - Males and females		
Post employment healthcare benefit obligation	60/65 years	60/65 years

*The assumed retirement age is 65 for all employees, employed before 1 September 2000 and 60 for all employees, employed after 1 September 2000. No allowance was made for early retirement.

Sensitivity analysis - Post-employment healthcare benefit obligation

Quantitative sensitivity analysis for significant assumptions on the obligations as at 31 March 2020 as shown below:

Below the effects on the obligation as at 31 March 2020 (central basis liability) results when assumptions are increased or decreased on:

		Group		SABS	
		Liability R'000	Change in liability %	Liability R'000	Change in liability %
Age rating					
	-1 year	71 034	(3,7)%	46 022	(4,1)%
	Central	73 780	-	47 992	-
	-3 years	76 554	3,8 %	49 989	4,2 %
Discount rate					
	+1%	67 940	(7,9)%	44 860	(6,5)%
	Central	73 780	-	47 992	-
	-1%	80 616	9,3 %	51 575	7,5 %
Salary inflation					
	+1%	80 834	9,6 %	51 688	7,7 %
	Central	73 780	-	47 992	-
	-1%	67 667	(8,3)%	44 717	(6,8)%

22. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

		Group		SABS	
		Liability R'000	Change in liability %	Liability R'000	Change in liability %
Future sensitivity on service and interest cost (March 2021)					
Service cost					
	+1%	661	(13,5)%	248	(12,4)%
	Central	764	-	283	-
	-1%	890	16,5 %	327	15,5 %
Interest cost					(6,5)%
	+1%	7 595	0,3 %	4 921	1,8 %
	Central	7 572	-	4 832	-
	-1%	7 527	(0,6)%	4 724	(2,2)%

Sensitivity analysis - Long service leave award obligation

Below the effects on the obligation on 31 March 2020 (central basis liability) results when the assumptions are increased and decreased by:

Discount rate					
	+1%	20 602	(5,0)%	7 552	(4,7)%
	Central	21 679	-	7 927	-
	-1%	22 859	5,4 %	8 336	5,2 %
Salary inflation					
	+1%	22 869	5,5 %	8 339	5,2 %
	Central	21 679	-	7 927	-
	-1%	20 574	(5,1)%	7 542	(4,9)%
Normal retirement age					
	+1%	23 404	8,0 %	8 650	9,1 %
	Central	21 679	-	7 927	-
	-1%	19 968	(7,9 %)	7 224	(8,9)%

		Group		SABS	
		Liability R'000	Change in liability %	Liability R'000	Change in liability %
Future sensitivity on service and interest cost (March 2021)					
Service cost	+1%	1 161	(5,1)%	436	(4,8)%
	Central	1 223	-	458	-
	-1%	1 292	5,6 %	482	5,2 %
Interest cost					
	+1%	1 803	7,0 %	659	7,3 %
	Central	1 685	-	614	-
	-1%	1 551	(8,0)%	564	(8,1)%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

22. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

Five year summary

Five year summary of post-employment benefit obligations is as follows:

	2020 R'000	2019 R'000	2018 R'000	2017 R'000	2016 R'000
Post-employment healthcare obligation benefit					
Present value of obligation	73 780	78 170	82 748	85 472	83 172
Actuarial gains/(losses)	(6 586)	(6 957)	(5 119)	(214)	(4 312)

The contributions expected to be paid during the next reporting period is R6.8 million- (2019: R6.7 million) for the Group and R5.6million (2019: R5.5 million) for SABS.

Five year summary of long service leave awards are as follows:

	2020 R'000	2019 R'000	2018 R'000	2017 R'000	2016 R'000
Long service leave award					
Present value of obligation	21 679	24 352	25 769	26 323	27 310
Actuarial (losses)/gains	(2 221)	(849)	(582)	(1 806)	(280)

23. DEFERRED INCOME

		Group		SABS	
		2020 R'000	2019 R'000	2020 R'000	2020 R'000
Opening balance - Plant and equipment		349 148	273 426	268 734	245 087
Recognised in deferred income (Refer to note 2)		(7 697)	(6 292)	(4 031)	(3 309)
Grant funding received					
Total grant funding received	30	90 436	81 956	90 436	86 956
Cash transfer to subsidiary	30	-	-	-	(60 000)
Department of energy (refund)/received		(98)	58	-	-
Purchases for subsidiary		-	-	(3 467)	-
Grant released against expenditure		(103)	-	(50)	-
Closing balance		**431 686**	**349 148**	**351 622**	**268 734**
Deferred income not yet utilised		270 032	201 962	216 510	144 381
Deferred income utilised - released as the asset is depreciated		161 455	147 186	134 913	124 353
Non-current portion		367 282	223 427	342 521	203 838
Current portion		64 404	125 721	9 101	64 896
		431 686	**349 148**	**351 622**	**268 734**

SABS received funds from Government earmarked specifically and exclusively for the acquisition of assets for the Group.

The funds are treated as deferred income over the useful life of the assets. All assets brought into use are kept in working condition and maintained regularly.

The useful life of the relevant assets are:
- Bio fuel - 5 years
- Netfa encapsulated sphere - 5 years
- Laboratories - 50 years
- Set top boxes project - 3 to 10 years
- National Electrical Test Facility (Netfa) short circuit laboratory - 3 to 10 years
- Thermal test chamber - 10 years
- Computer equipment - 3 years

24. TRADE AND OTHER PAYABLES

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
Trade payables	67 510	80 519	41 317	33 819
Contract liabilities	15 857	19 582	2 866	3 633
Short-term employee obligations	48 711	48 429	19 889	20 096
Straightlining of operating leases	-	112	-	-
Other payables	48 711	48 541	19 889	20 096
	132 078	**148 642**	**64 072**	**57 548**

The carrying amount of trade and other payables approximates their fair value. Trade payables are normally settled on average 45 days from invoice date and bear no interest.

The amount disclosed as contract liabilities at the end of 2019 has been recognised as revenue in the current reporting period.

Included in trade payables is an amount of Rnil (2019: R10 million) relating to income received in advance for Local Content Verification.

Prior period error - R15.9 million was incorrectly disclosed in the Group trade payables in stead of contract liabilities. This has been corrected in the current year.

The amount relating to Straightlining of operating leases was offset against the right of use assets it related to.

25. PROVISIONS

Reconciliation of provisions - Group - 2020

	Opening balance	Utilised during the year	Reversed during the year	Total
Performance bonus	784	(283)	(148)	353

Reconciliation of provisions - Group - 2019

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	41 296	26 851	(27 142)	(40 221)	784
Other salary related provisions	1 324	-	(600)	(724)	-
Other provisions	4 301	-	(885)	(3 416)	-
	46 921	**26 851**	**(28 627)**	**(44 361)**	**784**

Reconciliation of provisions - SABS - 2019

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	21 703	13 885	(15 549)	(20 039)	-
Other salary related provisions	590	-	(335)	(255)	-
Other provisions	4 301	-	(885)	(3 416)	-
	26 594	**13 885**	**(16 769)**	**(23 710)**	**-**

Performance bonus provision - relates to performance bonus based on the performance of the company as well as the individual subject to approval by the accounting authority. No performance bonuses have been provided for in the current year. The outstanding balance relates to disputes on bonus payments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. VAT PAYABLE/(RECEIVABLE)

VAT to be (refunded by)/paid over to SARS	(1 271)	190	(21 911)	(1 964)

27. NOTES TO CASH FLOW STATEMENTS

27.1 Reconciliation of loss before taxation and interest to cash utilised by operations

Loss profit before taxation		(61 575)	(1 211)	11 282	(57 962)
Adjustments for:					
Depreciation on property, plant and equipment	9&10	43 742	35 854	14 297	10 397
Depreciation on investment properties	11	204	203	4 483	4 408
Plant and equipment related government grants amortised	2	(7 697)	(6 292)	(4 031)	(3 309)
Amortisation	12	6 450	7 045	3 194	3 730
Loss/(profit) on disposal of property, plant and equipment and intangible assets		2 278	1 106	1 462	(1 063)
FVTPL Investment movement	2&4	9 927	10 470	9 927	10 470
Provision for employment benefit obligations (Post-employment healthcare benefit and long service leave)	22	9 731	11 272	5 988	6 915
Employee benefits paid from provisions (Post-employment healthcare benefit and long service leave)	22	(10 208)	(10 310)	(6 706)	(6 693)
Increase/(decrease) in ECL allowance of trade receivables		4 895	(3 288)	860	671
Dividend income	2	(1 507)	(5 719)	(1 507)	(5 719)
Expense transferred out of work-in-progress and assets	9&12	3 146	10 574	1 605	10 435
Interest income	5	(47 336)	(30 121)	(40 279)	(38 526)
Finance costs	6	2 345	48	1 039	48
(Reversal)/allowance of ECL of loans to group companies	16	-	-	701	14
Movements in provisions	25	(431)	(46 137)	-	(26 594)
Non cash grant transfer to subsidiary through loan account	30	-	-	-	(20 000)
Impairment of investment in subsidiary	16	-	-	-	54 252
Non-cash intercompany transactions	16	-	-	(289 749)	(28 565)
Transfer of assets from/(to) subsidiary	9	-	-	3 373	(1 306)
		(46 036)	**(26 506)**	**(284 061)**	**(88 397)**
Changes in working capital:					
Increase in inventory		(822)	(417)	(822)	(417)
Decrease/(increase) in trade and other receivables		45 422	(31 544)	595	(7 726)
(Decrease)/increase in asset related government grants	23	(201)	58	(3 517)	-
Decrease in VAT Liability		(190)	(3 469)	-	(85)
(Decrease)/increase in trade and other payables		(16 564)	(10 572)	6 524	4 496
Increase in VAT receivable		(1 271)	-	(19 947)	(1 964)
		26 374	**(45 944)**	**(17 167)**	**(5 696)**
		(19 662)	**(72 450)**	**(301 228)**	**(94 093)**

27. NOTES TO CASH FLOW STATEMENTS (continued)

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2020 R'000
27.2 Proceeds on disposals of: Property, plant and equipment				
Carrying value of disposals	1 677	1 199	780	121
(Loss)/profit on disposal	(1 674)	(1 106)	(775)	1 063
	3	**93**	**5**	**1 184**
Intangible assets				
Carrying value of disposals	604	-	604	-
(Loss)/profit on disposal	(604)	-	(604)	-
	-	-	-	-
Investment properties				
Carrying value of disposals	-	-	83	-
(Loss)/profit on disposal	-	-	(83)	-
	-	-	-	-

28. COMMITMENTS

Capital commitments

Commitments for the acquisition of property, plant and equipment

Contracted	38 922	16 429	19 047	10 199

Capital commitments are funded through internally generated funds and grants received specifically and exclusively for that purpose.

Operating lease commitments - the group as lessee

The Group adopted IFRS 16 in the current financial year. Refer to note 36 for impact.

The future minimum payments payable under non-cancelable operating leases were as follows:

Buildings		1 665		
Up to 1 year	-		-	-
1 to 5 years	-	4 767	-	-
More than 5 years	-	-	-	-
Vehicles	-	6 432	-	-
Up to 1 year	-	435	-	150
1 to 5 years	-	121	-	4
More than 5 years	-	-	-	-
Licenses	-	556	-	154
Up to 1 year	-	5 348	-	5 348
1 to 5 years	-	4 457	-	4 457
	-	9 805	-	9 805
Total	**-**	**16 793**	**-**	**9 959**

None of the lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. The Group does not have the option to purchase the property. Escalation clauses vary from contract to contract averaging -% (2019: 7,830%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

29. FINANCIAL RISK MANAGEMENT

29.1 Foreign currency risk management

Foreign currency exposures arise from revenue generating services from overseas clients and purchase of capital equipment, consumables and airfare costs. The Group does not enter into forward exchange contracts. Where possible the supplier is requested to take this cover to fix the price for the Group.

Forward exchange contracts - recognised transactions.
No forward exchange contracts were entered into during the financial year ended 31 March 2020 (2019: None).

Uncovered foreign exchange exposure.
At year end the Group was exposed to the following foreign currency denominated assets and liabilities for which no forward cover had been taken out.

	Group	
	2020 '000	2019 '000
Foreign amount:		
United States Dollar	26	53
Great Britain Pounds	21	20
Euro	79	29
Swiss Franc	3	17

The impact of the Group's exposure to foreign currency is not material.

29.2 Interest rate risk management

The Group is exposed to interest rate risk as it places funds in the money market floating interest rates. Interest rate risk is managed through effective cash management. The net interest income as at 31 March 2020 was R51,0 million (2019: R 30.1 million). The exposure of financial assets to interest rate risk is as follows:

	2020		2019	
	Interest bearing financial assets		Interest bearing financial assets	
	Floating rate R'000	Total R'000	Floating rate R'000	Total R'000
GROUP				
Cash and cash equivalents	531 888	531 888	259 161	259 161
SABS				
Cash and cash equivalents	393 735	393 735	186 733	186 733

The following table demonstrates the sensitivity to a reasonable possible change in interest rate for the Group.

Interest rate sensitivity	**Increase/decrease in basis** points	**Effect on profit** (R'000)
2019		
Rand	+50	2 659
Rand	-50	(2 659)
2018		
Rand	+50	1 301
Rand	-50	(1 301)

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk management

The Group manages liquidity risk through the compilation and monitoring of cash flow forecasts as well as ensuring that there are adequate banking facilities. Trade and other payables are settled within 12 months for both the the Group and SABS. Lease liability settlement is listed below.

Group - 2020 Financial liabilities	Within 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Total
	R'000	R'000	R'000	R'000	R'000
Financial liabilities amortised at cost					
Lease liabilities	4 822	825	3 752	10 286	19 685

SABS - 2020 Financial liabilities	Within 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Total
	R'000	R'000	R'000	R'000	R'000
Financial liabilities amortised at cost					
Lease liabilities	80	144	648	1 338	2 210

29.4 Credit risk management

Credit risk is managed on a group basis (refer to note 18).

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

The group limits its counterparty exposures from its money market investment operations 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. Credit quality of a customer is assessed based on a credit assessment report and individual credit limits are based upon the financial history of the customer as provided in these reports and any previous financial data held by the company. Customers with any relevant adverse financial history are not afforded a credit facility and need to pay on a cash only basis.

Trade receivables comprise a large number of customers, dispersed across different industries and geographical areas. Credit evaluations are performed on the financial condition of these debtors. Where appropriate, the necessary credit guarantees are arranged. Trade receivables are shown net of ECL allowance. Management assessed that there is minimum to no risk related to other receivables as disclosed in note 18.

The group is exposed to credit-related losses in the event of non-performance by counterparties. The group continually monitors its positions and the credit ratings of its counterparties and limits the extent to which it enters into transactions with any one party.

The group applied IFRS 9 simplified approach to calculate expected credit losses for all trade receivables as they are considered to be month to month with an expected life of one month. A settlement rate analysis was performed during model development to assess the expected invoice settlement rate and it was determined that 55% of the invoices settled in the first month, 87% and 96% by 6 and 12 months respectively. It was determined then that this is sufficient to demonstrate that the expected life of their trade is 1 month and there is no significant financing components to their monthly invoice (no effective interest rate applied). It is also deemed unnecessary to incorporate a forward looking overlay on the probabilities of default. The group did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Credit risk management (continued)

The maximum exposure to credit risk is as follows:

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash and cash equivalents	531 888	259 161	393 735	186 733
Trade receivables	140 978	190 426	15 264	16 140
Loan to group companies	-	-	93 462	6 414
	672 866	**449 587**	**502 461**	**209 287**

The credit exposures by geographical region for trade debtors are summarised as follows:

	Group		SABS	
	2020 %	2019 %	2020 %	2019 %
South Africa	93,7	94,7	96,4	100,0
Other	6,3	5,3	3,6	-
	100,0	**100,0**	**100,0**	**100,0**

29.5 Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising shareholder value.

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Trade and other payables	(132 078)	(148 642)	(64 072)	(57 548)
Lease liabilities	(16 579)	-	(5 806)	-
Cash and cash equivalents	531 888	259 161	393 735	186 733
	383 231	**99 291**	**323 857**	**117 957**
Equity	**831 249**	**887 056**	**772 645**	**758 035**

The Group's cash reserves are sufficient to cover all debt.

29. FINANCIAL RISK MANAGEMENT (continued)

29.6 Fair value of financial instruments

The carrying amount of all financial instruments approximated fair value.

Financial instruments traded in an active market - Financial instruments traded in an organised financial market are measured at the current quoted market price, adjusted for any transaction costs necessary to realise the assets or settle the liabilities

Fair value hierarchy

The Group used the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

As at 31 March 2020, the Group held the following financial instruments measured at fair value:

	Level 1 R'000
GROUP	
2020	
FVTPL - Equities and bonds	100 460
2019	
FVTPL - Equities and bonds	312 583
SABS	
2020	
FVTPL - Equities and bonds	100 460
2019	
FVTPL - Equities and bonds	312 583

The cost of the asset is deemed fair value.

There were no transfers between level 1 and level 2 in the year ended 31 March 2020 (2019: None).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

30. RELATED PARTY DISCLOSURE

National Government and state controlled entities

The group is controlled by SABS (incorporated in South Africa under section 2 of the Standards Act, 1945 which was superseded by the Standards Act, 1993 (Act No. 29 of 1993)) and subsequently superseded by the Standards Act, No. 8 of 2008. The SABS reports to **the dtic**.

Principal related parties

Related party	Country of incorporation	Nature of relationship
	South Africa	Subsidiary

SABS is presumed to be related to all other government entities within the national sphere by virtue of its classification as a national public entity. However, only transactions carried out within the ambit of **the dtic** and transactions not carried out on normal terms are disclosed.

	SABS	
	2020 R'000	2019 R'000
30.1 Loans receivable from related parties - SABS		
SABS Commercial SOC Ltd (Refer to note 16)	93 462	6 414
Net loan receivable from group companies	**93 462**	**6 414**
30.2 Other group transactions - income		
Royalties received	**2 503**	**73**

30.3 Purchases from related parties

The following transactions were carried out with related parties within the ambit of **the dtic** (Executive Authority) and is included in trade and other payable balances. Refer to note 24:

	2020				2019			
	Group		SABS		Group		SABS	
	Purchases R'000	Balances outstanding R'000	Purchases R'000	Balances outstanding R'000	Purchases R'000	Balances outstanding R'000	Purchases R'000	Balances outstanding R'000
National Regulator for Compulsory Specifications	35	-	-	-	48	1	21	-
National Metrology Institute of South Africa	102	3	18	-	97	35	-	-
South African National Accreditations System	1 973	30	1 973	30	1 949	(1)	1 918	(1)
SABS Commercial SOC Ltd - Intercompany purchases	-	-	910	-	-	-	-	-
	2 110	**33**	**1 991**	**30**	**3 004**	**35**	**1 939**	**(1)**

30. RELATED PARTY DISCLOSURE (continued)

30.4 Sales to related parties

GROUP	2020				2019			
	Sales R'000	ECL allowance R'000	Bad debts written off R'000	Balances outstanding R'000	Sales R'000	ECL allowance R'000	Bad debts written off R'000	Balances outstanding R'000
the dtic	144	49	-	144	-	-	-	-
National Regulator for Compulsory Specifications	16 398	245	-	4 331	14 366	303	3	4 723
National Metrology Institute of South Africa	132	3	-	25	244	4	-	55
South African National Accreditations System	593	27	-	369	560	19	-	27
National Consumer Council	7 818	-	-	-	7 463	-	-	-
	25 085	**324**	**-**	**4 869**	**22 633**	**326**	**3**	**4 805**
SABS								
-Corporate Charges	38 273	-	-	-	51 897	-	-	-
- Intercompany sale of standards	-	-	-	-	981	-	-	-
- Rentals: Land and Buildings	41 663	-	-	-	38 668	-	-	-
SABS Commercial SOC Ltd - Overheads recoveries	2 998	-	-	-	2 831	-	-	-
the dtic	144	49	-	144	-	-	-	-
National Regulator for Compulsory Specifications	10 562	102	-	2 645	10 192	155	-	3 645
National Metrology Institute of South Africa	(10)	2	-	6	86	4	-	50
South African National Accreditations System	585	27	-	369	560	19	-	24
National Consumer Council	7 818	-	-	-	7 463	-	-	-
	102 033	**180**	**-**	**3 164**	**112 678**	**178**	**-**	**3 719**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

30. RELATED PARTY DISCLOSURE (continued)

30.5 Key personnel compensation

The following emoluments were paid to the Board members for attendance of meetings and services beyond the attendance of meetings:

		Committee fees	Salary / director's fees	Bonus / payments	Retirement and medical fund	Other *	Total
Group - 2020		R'000	R'000	R'000	R'000	R'000	R'000
Executive							
G Strachan Acting CEO	1	-	2 558	-	-	43	2 601
Non-executive							
S Khan	&	-	-	-	-	-	-
J Scholtz	#	-	-	-	-	-	-
T Demana	#	-	-	-	-	-	-
Audit and Risk Committee							
R Van Wyk	6	93	-	-	-	-	93
S Kajee	6	131	-	-	-	-	131
		224	**2 558**	**-**	**-**	**43**	**2 825**

1. Acting CEO resigned on 6 February 2020. G Strachan was one of the three administrators appointed by **the dtic**. The group had no Board during the year under review.

& Treasury guideline - Employees of national, provincial and local government or agencies and entities of Government serving on boards of public entities are not entitled to additional remuneration

\# Appointed administrators - 14 September 2018

* Other relates to settlement fees

		Committee fees	Salary / director's fees	Bonus / payments	Retirement and medical fund	Other *	Total
SABS - 2020		R'000	R'000	R'000	R'000	R'000	R'000
Executive							
G Strachan	1	-	2 558	-	-	43	2 601
Non-executive							
J Scholtz	#	-	-	-	-	-	-
T Demana	#	-	-	-	-	-	-
S Khan	&	-	-	-	-	-	-
Audit and Risk Committee							
R Van Wyk	6	93	-	-	-	-	93
S Kajee	6	131	-	-	-	-	131
		224	**2 558**	**-**	**-**	**43**	**2 825**

1. Acting CEO resigned 6 February 2020. G Strachan was one of the three administrators appointed by **the dtic**. The group had no Board during the year under review.

\# Appointed administrators - 14 September 2018

& Treasury guideline - Employees of national, provincial and local government or agencies and entities of Government serving on boards of public entities are not entitled to additional remuneration

30. RELATED PARTY DISCLOSURE (continued)

30.5 Key personnel compensation (continued)

Group - 2019		Committee fees	Salary / director's fees	Bonus / payments	Retirement and medical fund	Other *	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Executive member							
B Mehlomakulu	1	-	1 982	1 423	70	2 875	6 350
G Strachan acting CEO	2	-	1 935	-	-	-	1 935
Non-executive member							
Z Monnakgotla	3	67	-	-	-	-	67
W K Masvikwa	4	64	-	-	-	-	64
G P Harris	5	-	-	-	-	-	-
N Naraindath	4	70	-	-	-	-	70
M J Ellman	3	90	-	-	-	-	90
D E Ndlovu	3	66	-	-	-	-	66
J Molobela	3	133	-	-	-	-	133
S Khan &		-	-	-	-	-	-
J Scholtz		-	-	-	-	-	-
T Demana	#	-	-	-	-	-	-
Audit and risk committee							
R van Wyk	6	89	-	-	-	-	89
S Kajee	6	53	-	-	-	-	53
O Mokgoantle	7	46	-	-	-	-	46
		678	**3 917**	**1 423**	**70**	**2 875**	**8 963**

Treasury guideline - Employees of national, provincial and local government or agencies and entities of Government serving on boards of public entities are not entitled to additional remuneration

Appointed administrators - 14 September 2018
1. Resigned 31 July 2018
2. Appointed acting CEO August 2018
3. Removed from Board by Minister of Trade and Industry 28 June 2018
4. Resigned from Board 15 June 2018
5. Resigned 14 April 2018
6. Appointed 14 September 2018
7. Appointed 14 September 2018, resigned 5 February 2019

* Other relates to settlement fees

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

30. RELATED PARTY DISCLOSURE (continued)

30.5 Key personnel compensation (continued)

		Committee fees	Salary / director's fees	Bonus / payments	Retirement and medical fund	Other *	Total
SABS - 2019		R'000	R'000	R'000	R'000	R'000	R'000
Executive member							
B Mehlomakulu	1	-	1 982	1 423	70	2 875	6 350
G Strachan	2	-	1 935	-	-	-	1 935
Non-executive member							
Z Monnakgotla	3	59	-	-	-	-	59
W K Masvikwa	4	57	-	-	-	-	57
G P Harris	5	-	-	-	-	-	-
M J Ellman	3	83	-	-	-	-	83
N Naraindath	4	62	-	-	-	-	62
J Molobela	3	133	-	-	-	-	133
J Scholtz	#	-	-	-	-	-	-
T Demana	#	-	-	-	-	-	-
S Khan	&	-	-	-	-	-	-
D E Ndlovu	3	59	-	-	-	-	59
Audit and risk committee							
R van Wyk	6	89	-	-	-	-	89
S Kajee	6	53	-	-	-	-	53
O Mokgoantle	7	46	-	-	-	-	46
		641	**3 917**	**1 423**	**70**	**2 875**	**8 926**

\# Treasury guideline - Employees of national, provincial and local government or agencies and entities of Government serving on boards of public entities are not entitled to additional remuneration.

\# Appointed administrators - 14 September 2018
1. Resigned 31 July 2018
2. Appointed as Acting CEO 1 August 2018
3. Removed from the Board by Minister of Trade and Industry 28 June 2018
4. Resigned -15 June 2018
5. Resigned 14 April 2018
6. Appointed 14 September 2018
7. Appointed 14 September 2018 , resigned 05 February 2019

30. RELATED PARTY DISCLOSURE (continued)

30.5 Key personnel compensation (continued)

Key management personnel compensation - other

The following emoluments were paid to the Board members for attendance of meetings and services beyond the attendance of meetings:

SABS - 2020		Salary	Bonus / performance payments	Retirement and medical fund	Other (a)	Total
		R'000	R'000	R'000	R'000	R'000
Executive management						
T Maharaj (CFO)		2 223	-	279	-	2 502
Dr S Bissoon (Standards)	*	1 756	-	255	46	2 057
IC Plaatjes (Corporate Services)	1	1 547	-	229	216	1 992
LH Makele (Human Capital)		2 035	-	209	-	2 244
ZNR Motloba (Standards)	2	1 116	283	61	138	1 598
SABS		**8 677**	**283**	**1 033**	**400**	**10 393**
MLA Gcabashe (Certification)		2 209	-	194	-	2 403
GJ Louw (Testing)	3	1 441	-	177	2 231	3 849
KJ Temba (Acting Executive Certification)	4	490	-	64	56	610
L Ntobongwana (Acting Executive Laboratory Services)	5	717	-	36	61	814
Dr S Bissoon (Training)		342	-	50	-	392
Subsidiary		**5 199**	**-**	**521**	**2 348**	**8 068**
SABS GROUP		**13 876**	**283**	**1 554**	**2 748**	**18 461**

1. Resigned 31 October 2019
2. Resigned 30 June 2019, 2017/18 bonus paid
3. Resigned 18 November 2019
4. Acting Executive Certification - 9 December 2019
5. Acting Executive Laboratory Services - 19 November 2019

(a) Other relates to cell phone allowance and leave reimbursements
* Employee entitled to long service leave benefit

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

30. RELATED PARTY DISCLOSURE (continued)

30.5 Key personnel compensation (continued)

		Salary	Bonus / performance payments	Retirement and medical fund	Other (a)	Total
SABS - 2019		R'000	R'000	R'000	R'000	R'000
Executive management						
B Mosako (CFO)	1	-	749	-	148	897
T Maharaj (CFO)	2	1 583	143	177	62	1 965
Dr S Bissoon (Enterprise Development)	3/*	1 706	487	243	90	2 526
IC Plaatjes (Chief Digital Officer)	4	2 549	1 426	381	-	4 356
LH Makele (Human Capital)	5	1 431	-	155	-	1 586
ZNR Motloba (Standards)		2 080	-	236	-	2 316
SABS		**9 349**	**2 805**	**1 192**	**300**	**13 646**
GJ Louw (Testing)		2 186	-	268	72	2 526
Dr S Bissoon (Training)	3/*	320	-	46	-	366
MLA Gcabashe (Certification)	6	2 158	692	157	-	3 007
Subsidiary		**4 664**	**692**	**471**	**72**	**5 899**
SABS GROUP		**14 013**	**3 497**	**1 663**	**372**	**19 545**

1. Resigned 31 March 2018
2. Acting CFO 28 May 2018 to 14 October 2018, appointed CFO 15 October 2018
3. Executive Training until 31 May 2018, appointed Executive Enterprise Development 1 June 2018 (Executive Enterprise Development has a dual function which includes training services in SABS Commercial)
4. Appointed Chief Digital Officer 1 April 2018
5. Appointed Executive Human Resources 1 July 2018
6. Appointed Executive Certification 1 April 2018

a. Includes bonuses relating to the 2016/17 financial year paid in the 2017/18 financial year

30.6 Transfer of assets (to)/from related parties

		SABS	
	Note(s)	2020 R'000	2019 R'000
SABS - assets transferred to subsidiary	9	-	(133)
WIP transfer to subsidiary	9	(3 527)	(331)
SABS - assets transferred from subsidiary	9	154	1 770
SABS - assets purchased from subsidiary	27	-	1 184
GCS Namibia (Pty) Ltd		-	-

30. RELATED PARTY DISCLOSURE (continued)

30.6 Transfer of assets (to)/from related parties (continued)

Government grants

The SABS transferred a grant of R123.6 million to SABS Commercial SOC Ltd through a cash transfer (2019: R20 million non cash transfer). R27.9 million was transferred from the grant received from **the dtic** and R95.7 million was transferred as an unconditional grant from SABS.

		Group		SABS	
	Note(s)	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Received from **the dtic**		245 559	232 477	245 559	232 477
Grant funding transferred to SABS Commercial SOC Ltd from SABS		-	-	(95 652)	-
Grant funding transferred to SABS Commercial SOC Ltd received from **the dtic**		-	-	(27 913)	(20 000)
		-	-	(123 565)	(20 000)
Other government grants	**23**				
Received from Department of Energy - Energy Efficiency labeling project		-	58	-	-
Received from **the dtic** - Local content verification		-	5 000	-	5 000
-Transferred to SABS Commercial		-	-	-	(5 000)
Received from **the dtic** - Infrastructure funds		90 436	81 956	90 436	81 956
-Transferred to SABS Commercial		-	-	-	(55 000)
		90 436	**87 014**	**90 436**	**26 956**

Other government grants relates to funding received from third parties (including **the dtic**) for specific and earmarked projects.

31. CONTINGENT LIABILITIES

Third parties	**27 500**	**45 517**	**24 500**	**23 925**

The contingent liabilities are partly due to alleged negligence in testing products, which is largely covered by insurance, as well as CCMA employee disputes. The cases are still pending.

32. FRUITLESS AND WASTEFUL EXPENDITURE

SABS is committed to using its funds in a responsible manner. Corrective action is taken where situations lead to fruitless and wasteful expenditure.

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	201	126	197	122
Incurred during the year:				
Interest and penalties incurred due to late payments to suppliers. The recoverability of the amount is under investigation.	-	58	-	58
SARS interest relates to late payments on PAYE, VAT and output vat claimed on entertainment. The items are under investigation.	-	17	-	17
Closing balance	**201**	**201**	**197**	**197**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

33. IRREGULAR EXPENDITURE

SABS is committed to using its funds in a responsible manner.

Corrective action is taken where situations lead to irregular expenditure.

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Confirmed				
Opening balance	11 790	3 129	8 672	3 129
Condoned by the National Treasury	-	(3 129)	-	(3 129)
Incurred during the year:				
Overspend on contract services	2 583	5 545	1 070	3 886
Overspend on contract services relating to prior year which were identified in current year	677	3 824	12	2 485
Non-compliance to policies and legislation	6 447	2 421	6 404	2 301
Non-compliance to policies and legislation relating to prior year which were identified in current year	280	-	175	-
Open ended contracts	722	-	123	-
Open ended contract relating to prior year which were identified in current year	7 068	-	1 660	-
	29 567	**11 790**	**18 116**	**8 672**
Awaiting condonement by National Treasury	**11 790**	**-**	**8 672**	**-**

Subsequent to year-end, the National Treasury approved the request to condone irregular expenditure to the amount of R1.791 million for the prior financial year. The balance of the request for the prior financial year is still under consideration by the National Treasury.

More than 80% of the irregular expenditure disclosed for the 2019/20 financial year relates to the prior period for contract overspends, open ended contracts and non-compliant processes.

	Group		SABS	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Unconfirmed				
Incurred during the year	24	1 272	18	443
Overspend on certain contract values	-	257	-	102
Overspend on certain contract values relating to prior year which were identified in current year				
Non-compliance to procurement policies	372	-	80	-
	396	**1 529**	**98**	**545**

Unconfirmed irregular expenditure relates to preliminary amounts that are currently under determination. Confirmed irregular expenditure relates to amounts that have been investigated. Disciplinary proceedings on the individuals concerned is currently underway.

34. EVENTS AFTER THE REPORTING PERIOD

On 15 March 2020, the President of South Africa declared the Coronavirus Pandemic (Covid-19) a National Disaster. Further to this, on 23 March 2020, the President announced a 21-day national lockdown, commencing 27 March 2020. The lockdown was extended for a further two weeks where after, the country moved to a phased lockdown approach.

The lockdown has had a significant impact to the economy as well as business.

The SABS performed an assessment in determining if there is any impact on the financial statements and found that only the following elements were affected by the impact of Covid-19 at 31 March 2020:

- Allowances for expected credit losses
- Loans to group companies
- Trade and other receivables

The SABS Group has factored the impact of Covid-19 in its expected credit loss calculation on trade receivables, which has resulted in an increase in the amount provided for. Refer to note 18 for the detailed impact that Covid-19 has had on the expected credit loss calculation on trade receivables.

In assessing and re-looking at our cash flow forecast for the next 12 months the SABS has also impaired the Loans to Group Companies as disclosed in note 16 to R93 462.

In looking at the forecasts for the 2020/21 financial year, the SABS Group has been impacted by the closure of the economy as only critical services, were allowed to operate and had to subsequently revise its targets for the to account for the expected impact of the lockdown. The revised targets for 2020/21 are reflective of the following:

- a decrease in revenue, due to the subdued economic conditions resulting in customer cancellations and an expected decrease in liquidity due to customer financial challenges as well as any debt relief provided.
- a 20% cut in the government grant from **the dtic** for the 2020/21 financial year; and
- reduction in expenditure due to the lockdown as well as the implementation of additional cost containment measures

It is also anticipated that Investments that the SABS holds may experience a reduction in fair value by the end of the next financial year.

35. GOING CONCERN

At 31 March 2020, the SABS had accumulated surpluses of R609.8 million (2019: R703.9 million). Total assets exceeded total liabilities by R679.5 million (2019: R 770.4 million). The going concern consideration regarding the SABS subsidiary, SABS Commercial SOC Ltd is included below:

The SABS Commercial SOC Ltd, being a subsidiary of the SABS, has a material uncertainty relating to the going concern assumption. At 31 March 2020, the company had accumulated losses of R64.7 million (2019: R112.3 million) and the company' total liabilities exceed its assets by R 132.5 million (2019: R130.9 million). The significant reduction in the assessed loss is indicative of the measures put in place to turnaround the company. This is further evidenced by the increase in the net profit to R47,6 million (2019: R1.4 million) as well as the fact that the company has made profits in the last two years.

The SABS Group has implemented phase one (stabilise the business), phase two (achieve operational excellence) of the turnaround strategy. The focus for the new financial year (phase three) will be charting a new course for the Group.

In considering the going concern of the Group, management has assessed the impact of Covid-19 on operations and have revised the financial forecasts for the 2020/21 financial year. The new forecasts have been submitted to **the dtic.**

Management expect a decrease in revenue due to the impact the subdued economy has on the customer base of the SABS as well as our ability to attract new customers during this time. The impact to customers has been factored into the expected credit losses (ECL) on trade receivables at 31 March 2020.

Further to this, management has implemented and continues to implement stringent cost cutting initiatives, to compensate for the reduction in revenue and government grant. The SABS has also applied to Government, through **the dtic,** for compensation for unexpected/unforeseen expenditure, arising from Covid-19, through the Adjustment Estimate Budget. Management believes that the Group will continue to remain a going concern due to various initiatives currently being implemented.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

35. GOING CONCERN (continued)

Further to this, there are no indications via the Executive Authority that Government has any intention to curtail the operations of the SABS.

The financial statements for the Group have thus been prepared on the basis of accounting policies applicable to a going concern.

36. NEW STANDARDS AND INTERPRETATIONS

36.1 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2020 or later periods:

IFRS 17 Insurance contracts	01 January 2021	Unlikely that there will be a material impact

Standards and interpretations effective and adopted in the current year - IFRS 16 Leases

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standards is described below.

Leases previously accounted for as operating leases

To apply the new requirements of IFRS 16 all operating leases were assessed that were previously recognized as such in terms of IAS 17. An additional assessment was also performed on all active contracts to determine if these contracts were considered to be leases in terms of IFRS 16.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Group as lessor:
- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification. There was no impact on the Group.

The effective date of the standard is for years beginning on or after 01 January 2019.

The group has adopted the standard for the first time in the 2020 annual financial statements using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 April 2019. Instead , the group applied the standard only to contract that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Comparative figures have not been restated.

The effect of adoption of IFRS 16 as at 1 April 2019 (increase/ (decrease)) is as follows:

36. NEW STANDARDS AND INTERPRETATIONS (continued)

	GROUP	SABS
	2020 R'000	2019 R'000
Assets		
Right-of-use assets	15 749	5 859
Liabilities		
Finance lease liabilities	16 579	5 806
Trade and other payables (straightlining of assets)	-	-
Total liabilities	**16 579**	**5 806**
The lease liability as at 31 March 2019 can be reconciled to the operating lease commitments as of 31 March 2020 as follows:	**16 793**	**9 959**
Assets		
Operating lease commitments as at 31 March 2019	16 793	9 959
Weighted average incremental borrowing rate as at 1 April 2019	12.2%	12.2%
Discounted operating lease commitments as at 1 April 2019	11 889	7 911
Lease payments relating to renewal periods not included in operating lease commitments as at 31 March 2019	1 320	
New leases not included in 31 March 2019 operating leases	3 370	1 884
Foreign translation adjustments	-	(3 989)
Lease liabilities at 31 March 2020	**16 579**	**5 806**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

37. PRIOR PERIOD ERRORS

1. Property, Plant and Equipment - Renovations to buildings - the costs incurred on the upgrade, renovation and restructuring of buildings were capitalised as separate assets and not aligned to the useful lives of the parent buildings where the improvements were done. The costs were allocated with their own useful lives and depreciated at a different rate to that of the buildings. The company reviewed the useful lives of its building portfolio and all buildings with a remaining useful life of ten years and less were increased with ten years. This assessment and extension of the useful lives of the building should have taken place in the prior year. The Group aligned the renovations to buildings to the reassessed useful life of the associated building. The impact on opening retained earnings amounted to a decrease of R5.3 million for the Group and Company and a decrease in accumulated depreciation of R364 099 for the Group and Company.

2. Deferred income in respect of government grants - In the prior year the group reassessed the useful life of its investment properties and increased it from 30 to 50 years. The related grant received from **the dtic** for the underlying investment property should have been aligned to the useful life for the recognition of other income. The impact of the reassessment should have also been accounted for against the deferred income recognised in the income statement when the useful life was adjusted. The impact of the change in useful life on the deferred income recognised is a decrease of R2.4 million in other income and an increase in the deferred income liability of R2.4 million.

3. Property, Plant and Equipment and Investment property reclassification - The SABS charges rental income for the use of office and laboratory accommodation. Certain buildings were in property, plant and equipment in the books of SABS instead of investment property. The impact of the reclassification in the 2018 financial year is a decrease in the opening balance of property, plant and equipment of R3.9 million and an increase in Investment property of R3.9 million. The prior period impact is an increase in investment properties of R9.2 million and a decrease in property, plant and equipment of R9.2 million.

4. Subscription fees relating to Standard sales - The SABS incorrectly accounted for subscriptions sales by using the invoice date as the start of the subscription period instead of the actual subscription period to straight-line revenue and no straight-lining was done for the self-selected and pre-selected subscriptions. This resulted in understatement of revenue to the value of R5.2 million in the prior year. The opening balance of retained earning was also understated and income received in advance overstated by R4.8 million. This also resulted in an overstatement of Income received in advance (included in Trade and other payables) of R10 million in 2019.

5. In the prior year the below market adjustment to the Loans to group companies was calculated incorrectly. The below market adjustment was then restated to be based on the contractual terms of the intercompany loan agreement. Furthermore the increase of the loan to the subsidiary in the 2019 year was not treated as a new loan. The impact of this correction resulted in a loss on the recognition of a new loan of R2.6 million. The interest income recognized in the prior year was also overstated and this resulted in a reduction of interest income by R7.7 million. This resulted in an overall reduction of the Loans to group companies balance at 1 April 2018 of R47,8 million and a reduction in the balance at 31 March 2019 of R50 million. This also resulted in a restatement of the related expected credit loss (ECL) at 1 April 2018 and 31 March 2019. The impact is a reduction of R4.4 million on the ECL at 1 April 2018 and a R43,5 million reduction in the ECL at 31 March 2019.

6. Trade and other receivables – IFRS 9 requires the entity to assess the impact of the first time adoption on the expected credit loss (ECL) for trade and other receivables at 1 April 2018. The SABS erroneously disclosed the first time adoption of the ECL as a movement during the 2019 financial year in the Statement of Changes in Equity and not on 1 April 2018. The impact of the correction of this error resulted in the change in the expected credit loss of R15.2 million been applied to the trade receivables balance at 1 April 2018 increasing the trade and other receivables balance by R15.2 million at 1 April 2018 for the SABS group and an increase for SABS of R441 000.

7. During the prior year buildings were incorrectly capitalized to laboratory equipment. The useful lives and the related accumulated depreciation of these buildings were correctly assessed. This error resulted in a reclassification of net book value of laboratory equipment to buildings in the 2019 property plant and equipment of R2.1 million and opening balance of R2.3 million.

8. In the prior year the SABS incorrectly included amounts in Income received in advance within Trade Payables that related to amounts that were billed and were not actually received by the SABS. Therefore the Income received in advance was overstated in the prior year and trade and other receivables were also overstated. The impact of the correction resulted in a reduction in Trade payables and Trade and other receivables of R1.2 million in the 2019 financial year and R1.5 million in the 2018 financial year.

9. The Group omitted to disclose contract liabilities included in trade and other payables in the prior year. An amount of R15.9 million was included in the prior year trade and other payables.

10. In the prior year the below market adjustment to the investment in subsidiaries was incorrectly calculated and did not take into account the contractual terms of the intercompany loan agreement. This resulted in an increase to the balance before impairment of R52,3 million at 1 April 2018 and an increase of R35,2 million at 31 March 2019 before impairment. This also resulted in an increase to the related impairment for 31 March 2019 of R35,2 million.

37. PRIOR PERIOD ERRORS (continued)

The correction of the error(s) results in adjustments as follows:

Impact on restatement on Statement of profit and loss	Group			SABS		
	Previously reported Mar 2019	Impact	Restated amount Mar 2019	Previously reported Mar 2019	Impact	Restated amount Mar 2019
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue	501 286	5 224	506 510	28 691	5 224	33 915
Other income	79 569	(2 424)	77 145	141 584	(2 424)	139 160
Depreciation	(43 468)	364	(43 104)	(18 899)	364	(18 535)
Other expenditure	(165 905)	-	(165 905)	(144 640)	51 417	(93 223)
Interest received	-	-	-	38 526	(7 796)	30 730

Impact of restatement on Statement of financial position	Note	Group			SABS		
		Previously reported Mar 2019	Impact	Restated amount Mar 2019	Previously reported Mar 2019	Impact	Restated amount Mar 2019
		R'000	R'000	R'000	R'000	R'000	R'000
Assets							
Property, plant and equipment	A	692 685	(4 985)	687 700	452 470	(14 224)	438 246
Investment properties		7 734	-	7 734	148 192	9 239	157 431
Loans to group companies		-	-	-	56 446	(50 032)	6 414
Trade and other receivables		200 661	(1 197)	199 464	25 353	(1 197)	24 156
Accumulated profit	B	811 397	2 622	814 019	738 991	(35 079)	703 912
Deferred income		221 003	2 424	223 427	201 414	2 424	203 838
Trade and other payables		159 870	(11 228)	148 642	68 776	(11 228)	57 548
Opening retained earnings	B	800 497	14 733	815 230	829 016	(83 130)	745 886

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2020

37. PRIOR PERIOD ERRORS (continued)

Impact of restatement on Statement of financial position	Note	Group			SABS		
		Previously reported Mar 2018	Impact	Restated amount Mar 2018	Previously reported Mar 2018	Impact	Restated amount Mar 2018
		R'000	R'000	R'000	R'000	R'000	R'000
Assets							
Property, plant and equipment	A	718 706	(5 349)	713 357	459 024	(9 227)	449 797
Investment properties		7 937	-	7 937	152 210	3 878	156 088
Loans to group companies		-	-	-	83 078	(79 644)	3 434
Trade and other receivables		150 555	13 807	164 362	17 858	(1 027)	16 831
Equity and liabilities Equity and reserves							
Accumulated profit	B	800 497	14 733	815 230	829 016	(83 130)	745 886
Trade and other payables		160 219	(6 275)	153 944	59 056	(6 275)	52 781

Figures in R'000	Group		SABS	
	2019	2018	2019	2019
A. Property, plant and equipment				
Buildings and renovations useful life alignment	(4 985)	(5 349)	(4 985)	(5 349)
Reclassification of buildings to investment properties in SABS	-	-	(9 239)	(3 878)
	(4 985)	(5 349)	(14 224)	(9 227)
B. Opening retained earnings/ Accumulated profit				
Buildings and renovations useful life alignment	(4 985)	(5 349)	(4 985)	(5 349)
Standards subscriptions	10 031	4 807	10 031	4 807
Loans to group companies	-	-	(37 701)	(83 029)
Trade and other receivables - IFRS 9 adoption	-	15 275	-	441
Deferred income in respect of government grants	(2 424)	-	(2 424)	-
	2 622	**14 733**	**(35 079)**	**(83 130)**

37. PRIOR PERIOD ERRORS (continued)

Figures in R'000	Group			Group		
	Previously reported Mar 2019	Impact	Restated amount Mar 2019	Previously reported Mar 2019	Impact	Restated amount Mar 2019
	R'000	R'000	R'000	R'000	R'000	R'000
Reclassification Cost						
Buildings	286 329	2 902	289 231	290 431	2 844	293 275
Laboratory equipment	262 547	(2 902)	259 645	259 166	(2 844)	256 322
Subtotal	548 876	-	548 876	549 597	-	549 597
Accumulated depreciation						
Buildings	(107 203)	(822)	(108 025)	(102 945)	(521)	(103 466)
Laboratory equipment	(180 588)	822	(179 766)	(166 681)	521	(166 160)
	(287 791)	-	(287 791)	(269 626)	-	(269 626)
Net book value						
Buildings	179 126	2 080	181 206	187 486	2 323	189 809
Laboratory equipment	81 959	(2 080)	79 879	92 485	(2 323)	90 162
	261 085	-	261 085	279 971	-	279 971

REFERENCE INFORMATION

ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
AFS	Available-for-sale
AFSEC	African Electro-technical Standardisation Committee
ARSO	African Regional Standards Organisation
BBBEE	Broad-Based Black Economic Empowerment
CA	Conformity Assessment body
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
DCF	Discounted cash slow
EE	Employment equity
EIR	Effective interest rate
EME	Exempt micro enterprises
ERM	Enterprise wide management
GAAP	Generally Accepted Accounting Principles
GCS	Global Conformity Services
IAS	International Accounting Standard
IASB	International Standards on Auditing Board
ICT	Information communication technology
IEC	International Electro-technical Commission
IFRS	International Financial Reporting Standards
IIA	Institute of In ternal Auditors
IPAP	Industrial Policy Action Plan
ISA	International Standards on Auditing
ISO	International Organization for Standardization
IT	Information technology
King IV	King Report on Governance for South Africa and the King Code of Governance Principles
KPI	Key performance indicator
LTIFR	Lost time injury incident frequency rate
LTI	Lost time injury
MI	Minor injury
MIIFR	Minor injury incident frequency rate
MWh	Megawatt hour
NDP	National Development Plan
NETFA	National Electrical Test Facility
NRCS	National Regulator for Compulsory Specifications
OCI	Other Comprehensive Income
PAA	Public Audit Act
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
QSE	Qualifying small enterprise
R&D	Research and development
RvA	Raad voor Accreditatie
SA	South Africa
SABS	South African Bureau of Standards
SADC	Southern Africa Development Community
SADCSTAN	Southern Africa Development Community Co-operation on Standardisation
SANAS	South African National Accreditation System
SANS	South African National Standards
SATR	South African Technical Report
SATS	South African Technical Specifications
SMME	Small, medium and micro enterprise
SOC	State-owned company
SQAM	Standards, Quality, Accreditation and Metrology
the dti	The Department of Trade and Industry
the dtic	The Department of Trade, Industry and Competition
TI	Technical Infrastructure
VAT	Value Added Tax
VDA	German Association of the Automotive Industry
WIP	Work-in-progress
ZAR	South African Rand

NOTES

CONTACT DETAILS

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