

# **Portfolio Committee on Trade and Industry Presentation on the NRCS's Annual Report for 2018/19 Financial Year and Quarter 1 Report 2019/20 Financial Year**

**Edward Mamadise  
Chief Executive Officer**

# NRCS Delegation

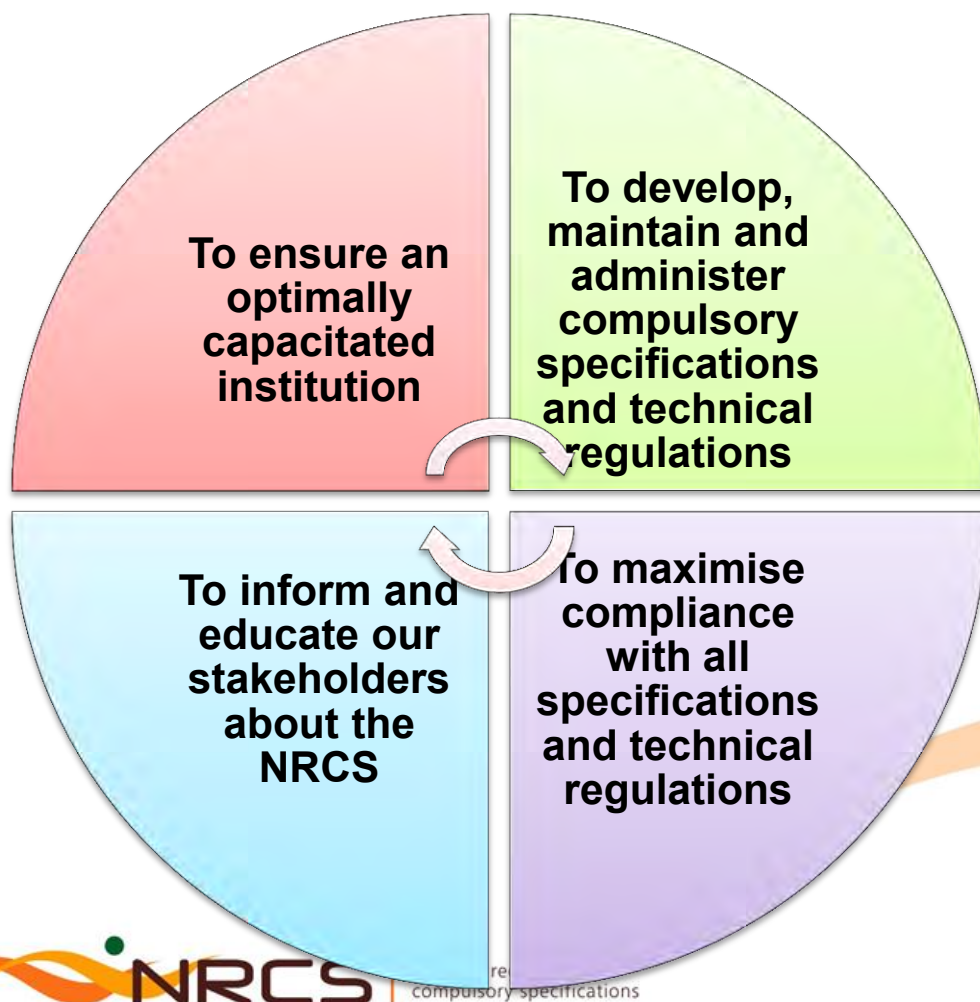
- ☐ Mr. Edward Mamadise
  - ☐ Chief Executive Officer
- ☐ Ms. Mimi Abdool
  - ☐ Chief Financial Officer
- ☐ Mr. Edward Matemba
  - ☐ Manager: Strategy and Risk

# Scope of Presentation

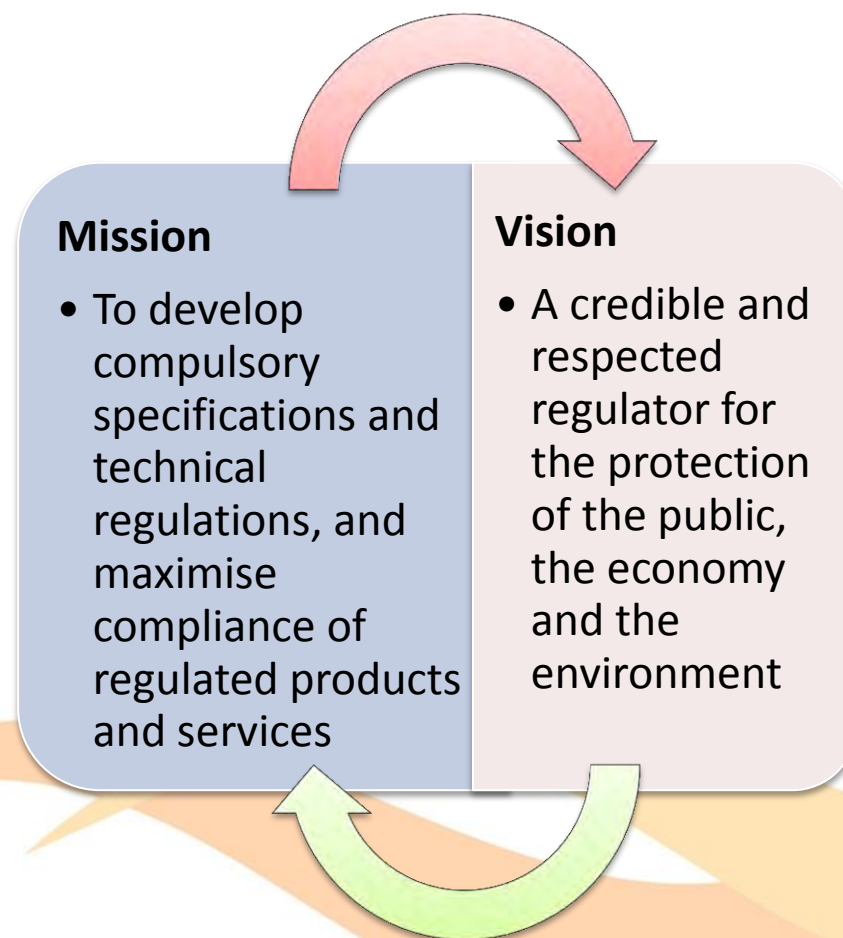
- ❑ Strategic Overview of the NRCS
  - ❑ Strategic Goals, Mission, Vision
  - ❑ Legislative mandate
  - ❑ Regulated industries
- ❑ Performance against Targets
  - ❑ Non-Financial Performance and highlights
  - ❑ Financial Performance
  - ❑ Legacy Issues
- ❑ Audit report - AGSA

# NRCS Strategy, Mission and Vision

## NRCS Strategic Goals



## Mission & Vision



# Legislative Mandate

## Mandate of the NRCS is derived from the following Acts.

**National Regulator for Compulsory Specifications Act  
(Act No. 5 of 2008 as amended)**

**Legal Metrology Act  
(Act No. 9 of 2014)**

**The National Road Traffic Act, Act No. 93 of 1996 as amended**

**National Building Regulations and Building Standards Act  
(Act No. 103 of 1977)**

**The Foodstuffs, Cosmetics and Disinfectants Act  
(Act 54 of 1972)**

# Structure and Human Capital

- ❑ The NRCS is currently structured around the regulated Industry Clusters
  - ❑ Automotive
  - ❑ CMM
  - ❑ Electro-technical
  - ❑ Legal Metrology
  - ❑ Foods and Associated Industries
- ❑ At the end of Financial year the NRCS had 299 employees
  - ❑ 297 permanent and 2 contractors

# Industries regulated by NRCS

Industry Sector	Product regulated / Service rendered
Automotive	Vehicles, Replacements components, Manufactures Importers and Builders
Chemicals, Materials and Mechanicals	Cement, chemicals, detergents, Personal protective equipment, safety shoes, building materials, treated timber, plastic bags, solar water heaters, plumbing equipment
Electro-technical	Electrical appliances and products, Electronic appliances and products
Food and Associated	Fishery products, canned meat and processed meat <b>additional mandate - new VC effective from 8 October 2019</b>
Legal Metrology	Calibration of measuring instruments, weights, measures and gaming equipment
Building Regulations	Ensure uniform interpretation of National Building Regulations and Standards Act, administer review Board

# Annual Report 2018/19 Financial Year



# Highlights

- ❑ Celebrated 10 Years since establishment
- ❑ Non-compliant products to the value of R319 million were identified during the financial year. Mostly electro-technical products R76m, fisheries R72m and Legal Metrology related transgressions amounting to R132 m.
  - ❑ Short measure remains a major challenge within the Legal Metrology domain, 2458 incidents identified.
- ❑ Since establishment, the NRCS has identified non-compliant products worth more than 2,41 billion and these have either been corrected or removed from the market
- ❑ Caring for our communities and the vulnerable
  - ❑ The NRCS spearheaded a project where the organisation distributed 1 200 compliant paraffin stoves to some of our communities in exchange of the non-compliant products – benefits includes the reduction in paraffin related fires and burns and asset losses

# Highlights

- ❑ 50 178 inspections were conducted across all regulated industries
- ❑ Oceans economy- Facilitated trade by fulfilling mandate as Competent Authority
  - ❑ 9 401 Health Guarantees issued for export products
  - ❑ 7 917 compliance certificates issued for export products
  - ❑ 2 032 Consignments of live lobster were exported
  - ❑ 342 Consignments of live oysters were exported
- ❑ Implemented Risk Based Approach to Inspections and Approvals
- ❑ Finalised 17 656 during the 2018/19 FY as compared to 14 148 in the prior year.
  - ❑ 14 002 (79% were within 120 days)

## Legacy Issues

# Electro-technical LOAs Legacy Issued resolved

- ❑ LOAs on hand within Electro-technical reduced from 4 586 at the beginning of the financial year to 2 107 at the end of the financial year
- ❑ Interventions that were implemented
  - ❑ Additional capacity –
    - ❑ Temporary – surveillance inspectors were utilized to address the backlog
    - ❑ Permanent – Six candidate inspectors completed training
  - ❑ Implemented the Risk Based Approach – which resulted in low risk products being processed much quicker
  - ❑ Implemented the 30 days cancellation period for applicants who fail to address findings within 30days from date finding raised.

# Legacy Issues - Ford Kuga

- ❑ The NRCS identified systems or parts that are regulated which are believed to be subjected to elevated temperatures during vehicle operations.
- ❑ Two models of the Ford Kuga were tested mainly for braking requirements for both friction material as well as the braking systems
- ❑ The results showed that the requirements of the relevant standards required by the VC were complied with.
- ❑ There was no indication of possible fires that could have been generated through the braking system of the vehicle.
- ❑ The conclusion is that the cause of fire is due to systems or parts that are not covered by the VC in its current form.

# Legacy Issues - Processed Meats

- ❑ The Minister signed and gazetted the Compulsory Specification
- ❑ The Compulsory specification comes in to effect on the 8<sup>th</sup> of October 2019.
- ❑ Implementation:
  - ❑ Registration of factories
  - ❑ Approval of factories – compliance to health requirements
  - ❑ Market Surveillance – There will be ongoing monitoring as per the risk classification of both manufacturing plants and the market (retailers and distributors).

# Modernization Benefits

- ❑ The NRCS business processes are mostly manual processes
- ❑ Existing ICT systems are either old or fragmented and
- ❑ Modernisation is therefore meant:
  - ❑ To improve the efficiency of NRCS services to its customers
  - ❑ To add mobility to the inspector's / field workers through web-based and mobile technologies
  - ❑ To Improve information accessibility for employees and clients
  - ❑ Transform NRCS from a paper- to digital processing environment
  - ❑ Increased collaboration with NRCS stakeholders or partners in information sharing
  - ❑ Improved data integrity and security
  - ❑ Integration of support and core functions which will assist with company registration process and levy payments (increased revenue)



# Modernisation Progress

## Resource Company

### Acquire Resources:

- ICT Architect, Developer, Business Analyst & Project Manager.
- 1<sup>st</sup> Attempt to appoint a resource company – Tender cancelled as there were irregularities 2018
- 2<sup>nd</sup> Tender process restarted October '18 Reviewed Spec, Bid Adjudication Committee, Advert & Tender Briefing), 29 bids received.
- Bid Evaluation Committee – 5 x meetings April. - July '19
- Bid Adjudication Committee approved end August. '19
- Tender in the process of being cancelled due to irregularities within the process. Awaiting National Treasury guidance

## Enterprise Resource Planning (ERP)

### Business process automation:

- Finance, Human Resources & Payroll, Supply Chain, Facilities & Warehousing
- CEO Project Re-approval 03 May. '19
- BSC meetings June to August. '19
- ICT market analyses report as advice by National Treasury, end September.'19
- Internal IT environment analysis exercise, mid October.'19
- Bid Advertisement in November.'19

## Regulatory System

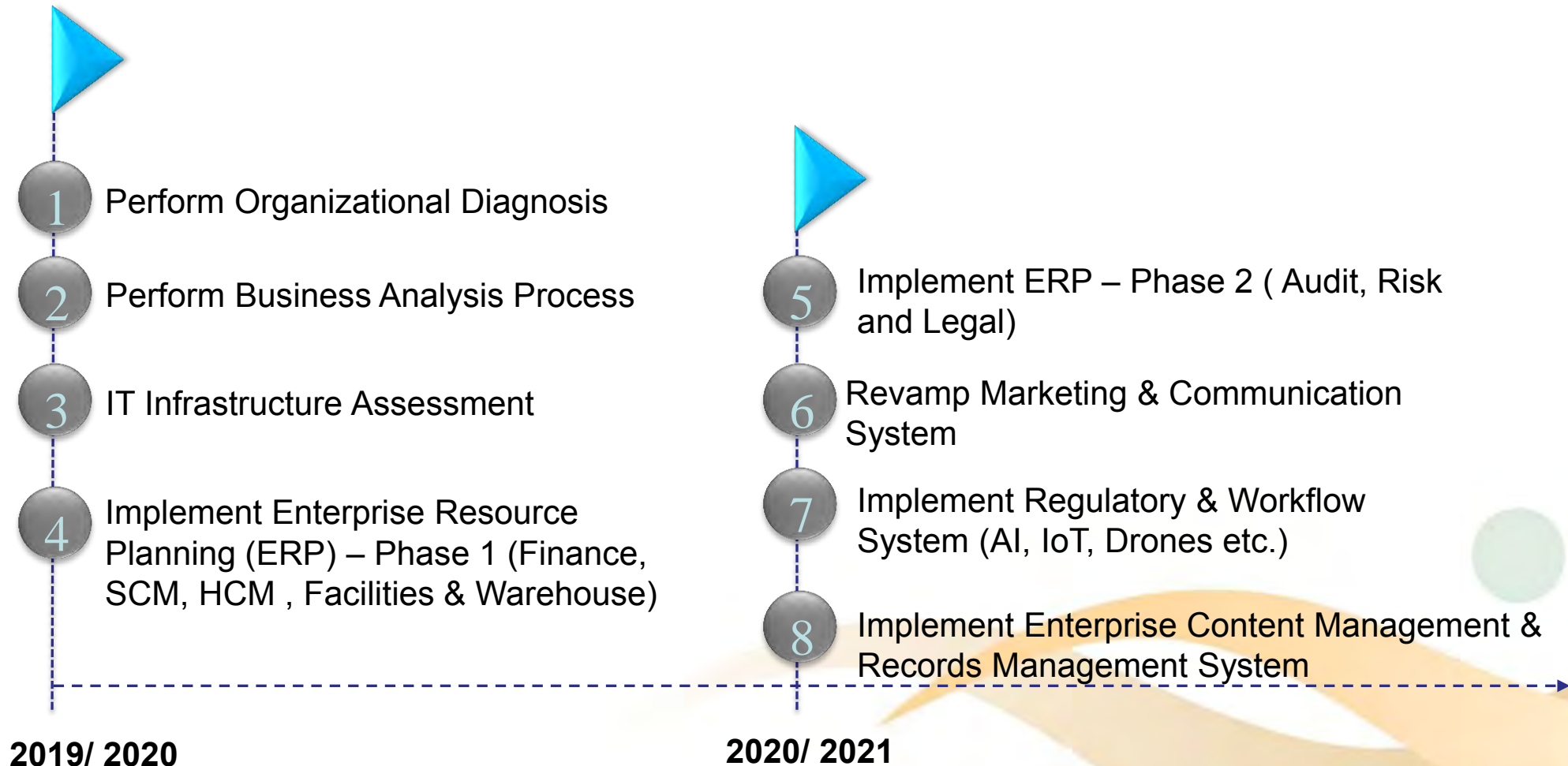
### Regulatory Business Processes Mapping:

- Incorporation of Risk Based Approach rules March. '20
- User Requirements documentation March. '20
- Terms of Reference and Project Approval April. '20
- Target advertisement 2<sup>nd</sup> half of 2020



# Modernization Roadmap

## Program Management, Change Management & Training



# Challenges

- ❑ Supply chain challenges and irregularities that meant two tenders had to be cancelled
- ❑ Resignation of the Chief Information Officer
  - ❑ Subsequently appointed a New Chief Information Officer on a secondment basis on 1 September 2019
- ❑ Inadequate capacity within the NRCS to implement the Modernisation Project – hence the need to source a resource company to augment internal resources

## Performance Information 2018/19 Financial Year

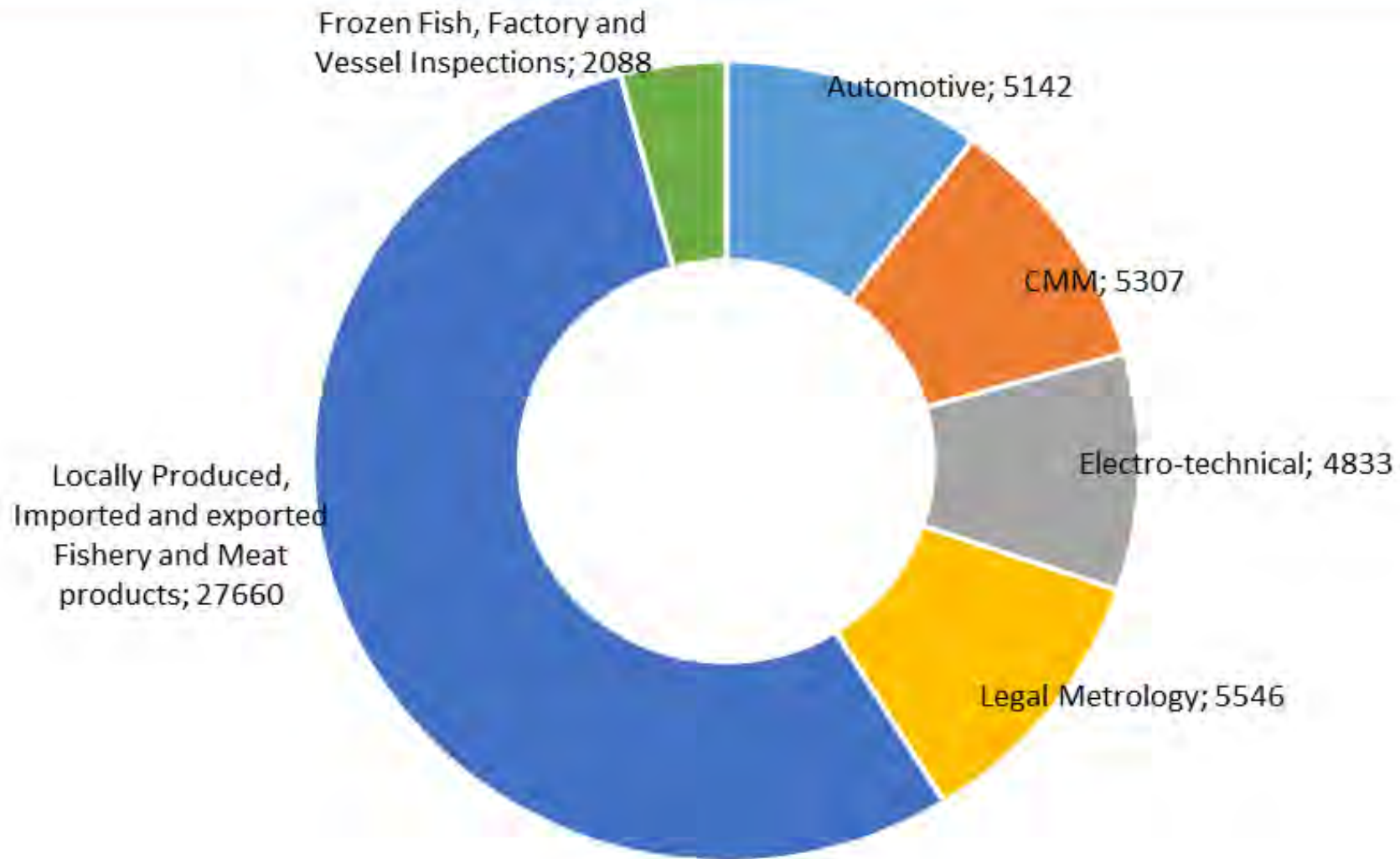
# SG1: Develop, maintain and administer compulsory specifications

- ❑ Met the target for 12 Compulsory Specifications (VCs)/ Technical Regulations (TRs) were approved by the CEO. 12 VCs/TRs were approved.
  - ❑ Two new compulsory specifications became effective during the financial year:
    - ❑ Live Lobster
    - ❑ Aquaculture Live Chilled Raw Bivalves Molluscs and Live Oysters
- ❑ Impact Assessments – the target of 100% for impact assessments on 1st gazetting of VCs/TRs was achieved.

## SG2: Maximise compliance with all compulsory specifications and technical regulations

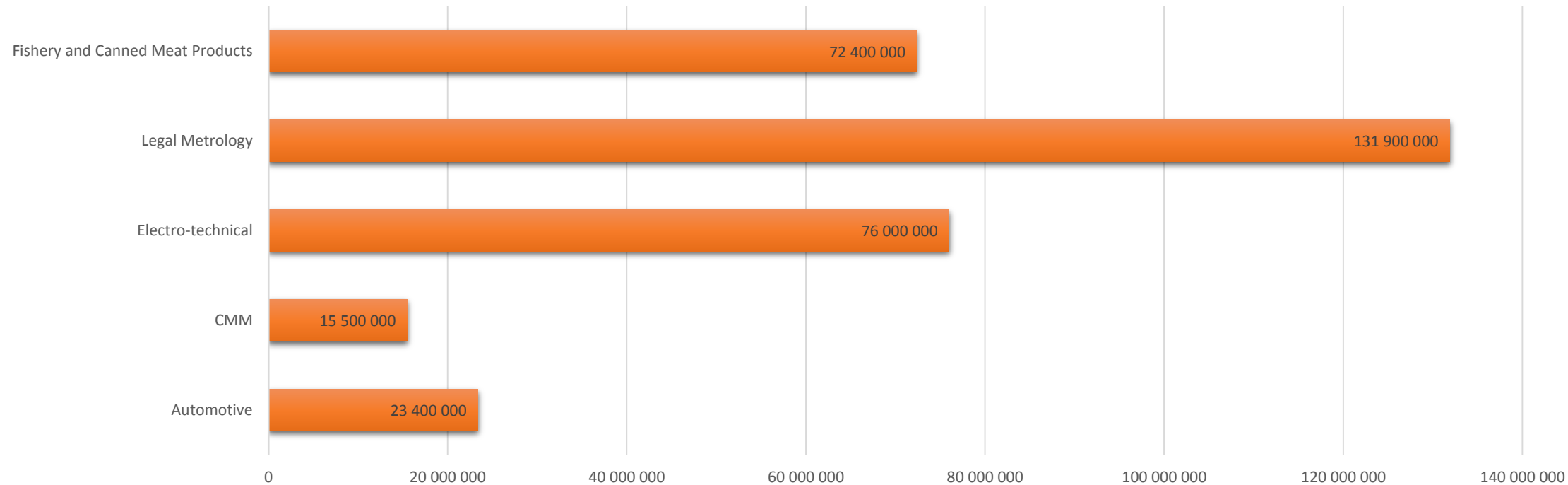
- ❑ Achieved the targets for inspections
  - ❑ 20 828 for Automotive, Electro-technical, Chemicals Materials and Mechanicals and Legal Metrology against a target of 20 430 which was 2% over achievement
  - ❑ 100% consignment and production inspections were conducted on all declared or known fisheries and canned meat regulated products. In total 29 748 inspections were conducted for fisheries and canned meat products
- ❑ 79% (14 002 out of the 17 656) Approvals were processed within 120 calendar days. A significant increase in the number of approvals finalised from 14 148 (2017/18 FY) to 17 656 in 2018/19 FY
- ❑ 96% (836 out of the 870) Gaming Approval applications were processed within 30 calendar days

## SG2: Inspections Breakdown



# SG2: Non-compliances

Non-compliances per sector



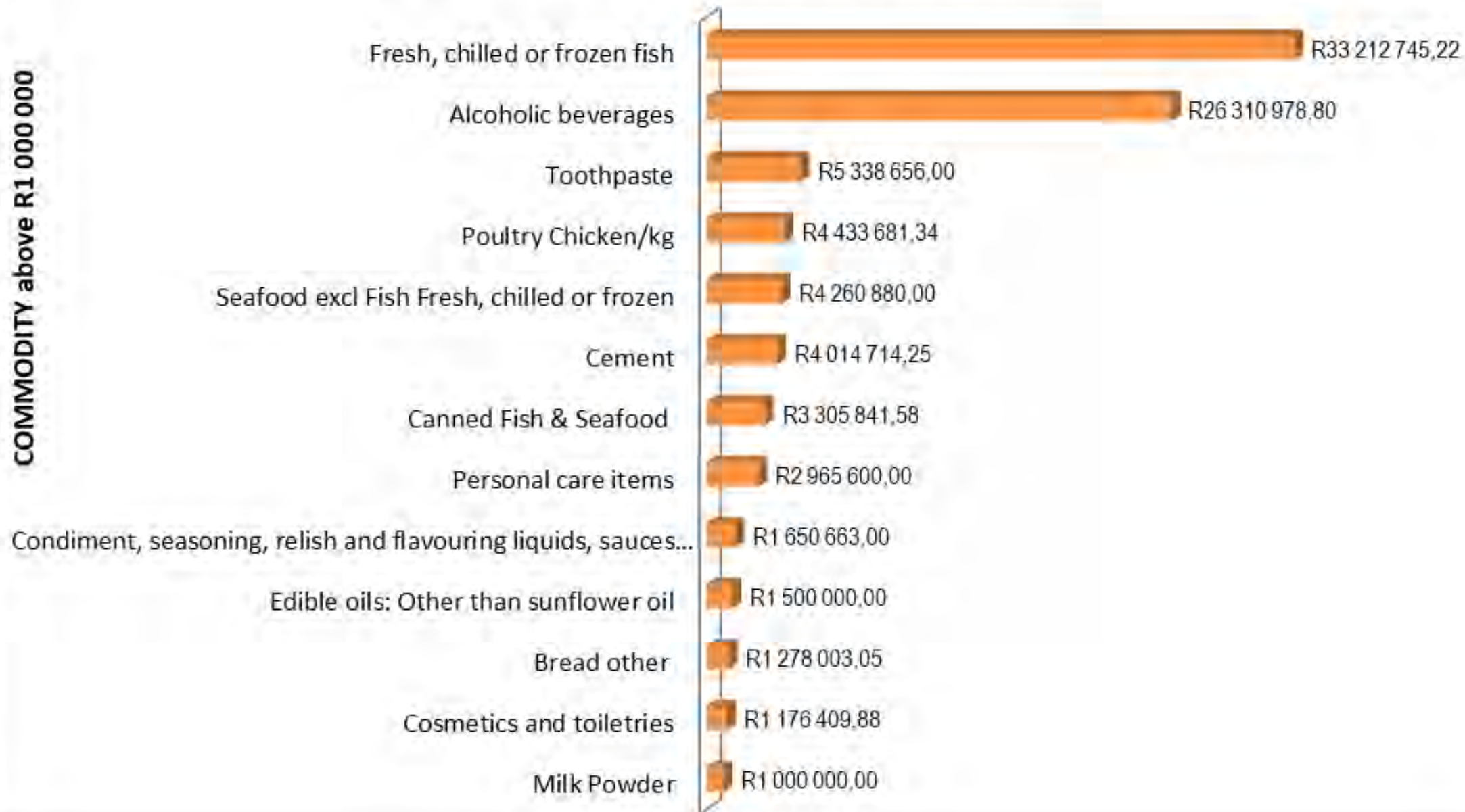
- ❑ Non-compliances were mainly due to short measure within Legal Metrology, Fisheries and Canned Meat products non-compliances were mainly import products - micro-biological contamination
- ❑ Electro-technical, Automotive and Chemicals, Materials and Mechanicals non compliances were mainly due to failure to meet minimum safety requirements and markings



# SG2: Legal Metrology Non-compliances

## VALUE OF NON-COMPLIANT PRODUCTS TESTED

COMMODITY above R1 000 000





# Inform and Educate our Stakeholders and Ensure Optimally Capacitated Organisation

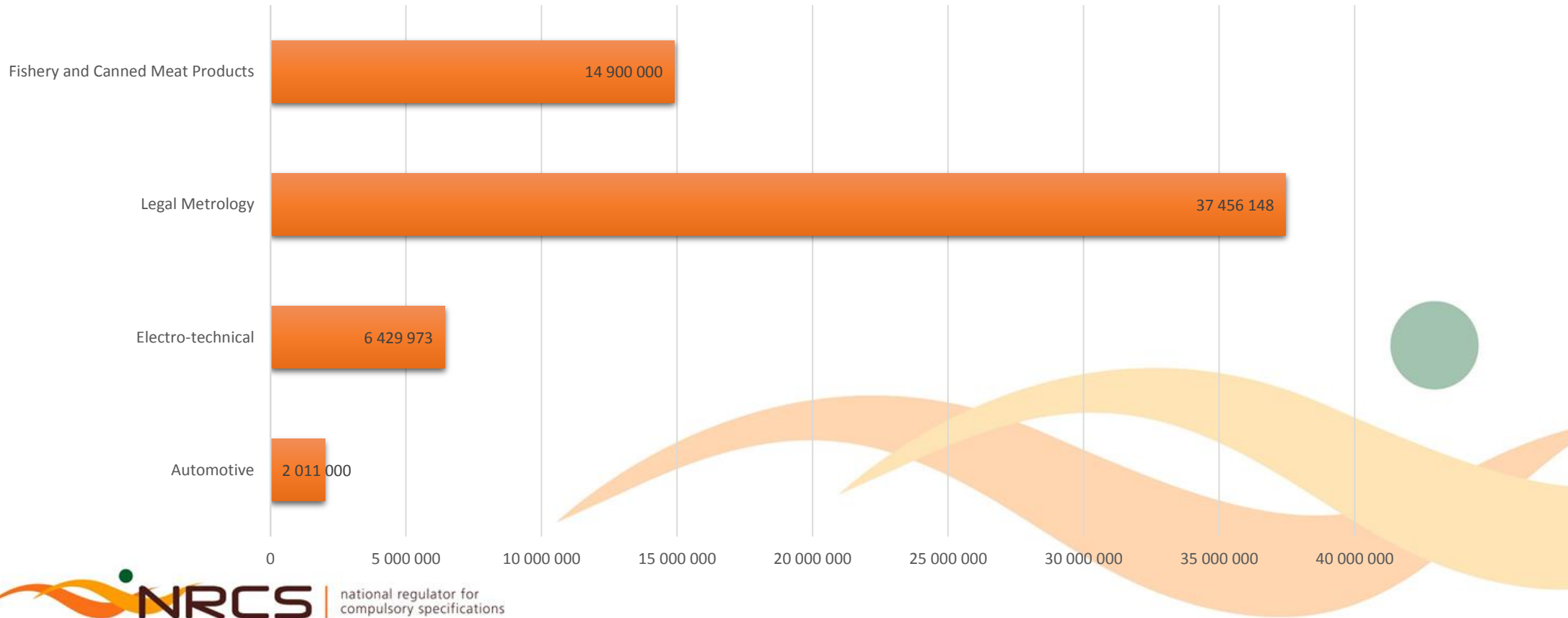
- ❑ Conducted 21 consumer awareness campaigns through out the country against a target of 14
- ❑ Achieved 75% of the set targets from the NRCS Stakeholder Engagement Strategy
- ❑ Vacancy rate was maintained at 6%
- ❑ Had challenges within the ICT domain:
  - ❑ Failed to implement 63% of the ICT Master System Plan Project

# Performance Information 2019/20 Financial Year - Quarter 1 Report

# Quarter 1 Highlights

- ❑ Non-compliant products to the value of R101,5 million were identified during the 1<sup>st</sup> Quarter.
- ❑ 13 512 inspections were conducted across all regulated industries

Quarter 1: Non-compliances per sector



# Maximise compliance with all compulsory specifications and technical regulations

- ❑ Conducted 5 101 inspections within Automotive, Electro-technical, Chemicals Materials and Mechanicals and Legal Metrology against a target of 5 400
  - ❑ Variance was mostly due to inspectors being utilised to process approvals
  - ❑ The Annual Target is expected to be met as the inspectors are now back to their normal duties and inspection plans are being managed to ensure that the annual target is met
- ❑ 100% of inspections conducted on all declared produced canned fishery and meat products. In total 7 855 inspections were conducted
- ❑ 556 inspections were conducted for frozen fishery products, factories and vessels against a target of 535

# Maximise compliance with all compulsory specifications and technical regulations

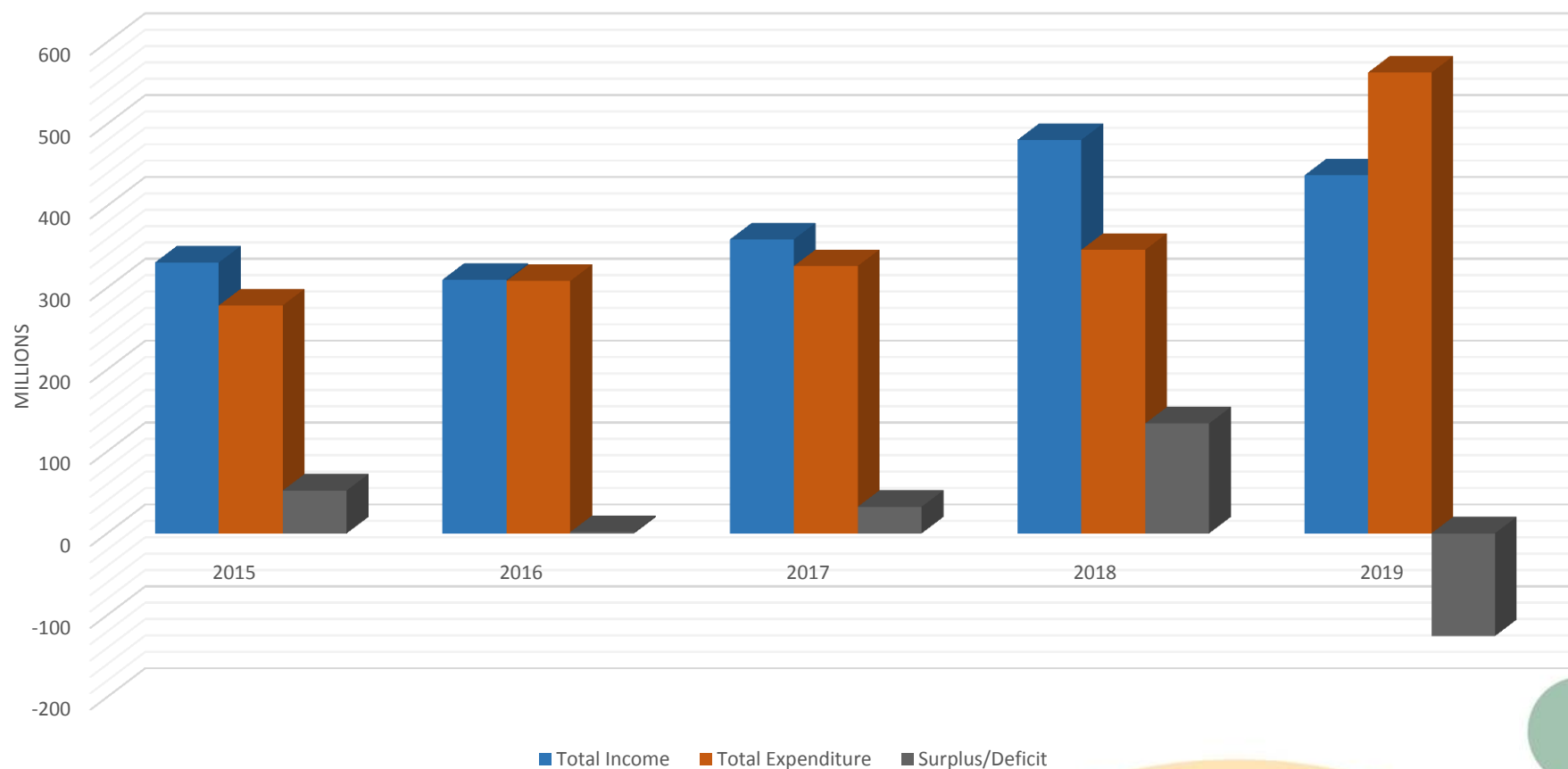
- ❑ 100% Gaming Approval applications were processed within 30 calendar days
- ❑ 92% of the approvals within Automotive, Chemicals, Materials and Mechanicals, Electro-technical and Legal Metrology Type Approval were processed within 120 calendar days. A significant increase from last financial year performance of 79%.
  - ❑ As at the end of June 2019, 3 129 Electro-technical LOA applications were carried over to Quarter 2.
    - ❑ 1 464 unassigned and all were below 120 days.
    - ❑ 638 awaiting corrective action/pending
    - ❑ 808 approved awaiting capturing
    - ❑ 219 assigned for technical evaluation

# Performance Information Quarter 1 Continued

- ❑ Met the target for 1 Compulsory Specifications (VCs)/ Technical Regulations (TRs) were approved by the CEO. Three were submitted 1 first gazette and two were for final gazetting.
- ❑ Impact Assessments – the target of 100% for impact assessments on 1st gazetting of VCs/TRs was achieved.
- ❑ Conducted 3 consumer awareness campaigns through out the country against a target of 3
- ❑ Vacancy rate reduced to 5%
- ❑ Appointed on a secondment basis Chief Information Officer from SITA.

## Financial Performance 2018/19 Financial Year

# Income Statement Summary as at 31 March 2019



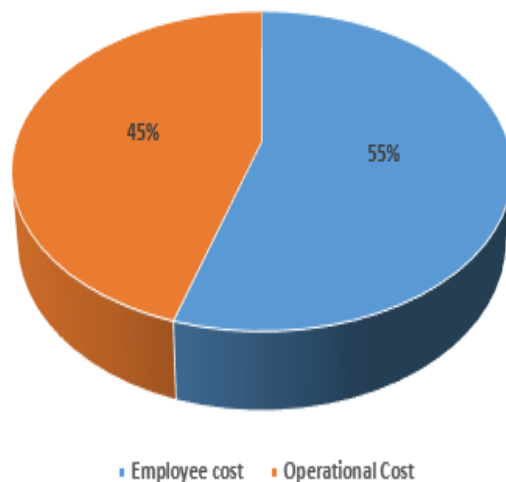
	2015	2016	2017	2018	2019
Total Income	330 925 710	309 926 876	359 150 539	480 688 210	437 260 002
Total Expenditure	278 513 588	308 310 807	326 620 334	346 405 618	562 776 910
Surplus/Deficit	52 412 122	1 616 069	32 530 205	134 282 592	-125 516 908



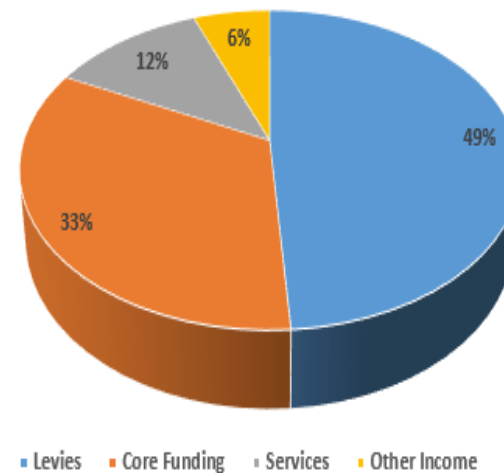
# Statement of Financial Performance as at 31 March 2019

	2015	2016	2017	2018	2019
Levies	166 436 828	154 590 878	198 283 726	264 334 268	213 703 820
Core Funding	109 734 000	91 732 000	86 418 000	128 745 000	146 104 000
Services	41 329 839	45 223 056	50 790 456	65 114 734	51 637 559
Other Income	13 425 043	18 380 942	23 658 357	22 494 208	25 814 623
<b>Total Income</b>	<b>330 925 710</b>	<b>309 926 876</b>	<b>359 150 539</b>	<b>480 688 210</b>	<b>437 260 002</b>
Employee cost	217 186 399	237 057 787	258 177 098	280 262 027	308 274 400
Operational Cost	61 327 189	71 253 020	68 443 235	66 143 591	254 502 510
<b>Total Expenditure</b>	<b>278 513 588</b>	<b>308 310 807</b>	<b>326 620 334</b>	<b>346 405 618</b>	<b>562 776 910</b>
<b>Surplus</b>	<b>52 412 122</b>	<b>1 616 069</b>	<b>32 530 205</b>	<b>134 282 592</b>	<b>(125 516 908)</b>

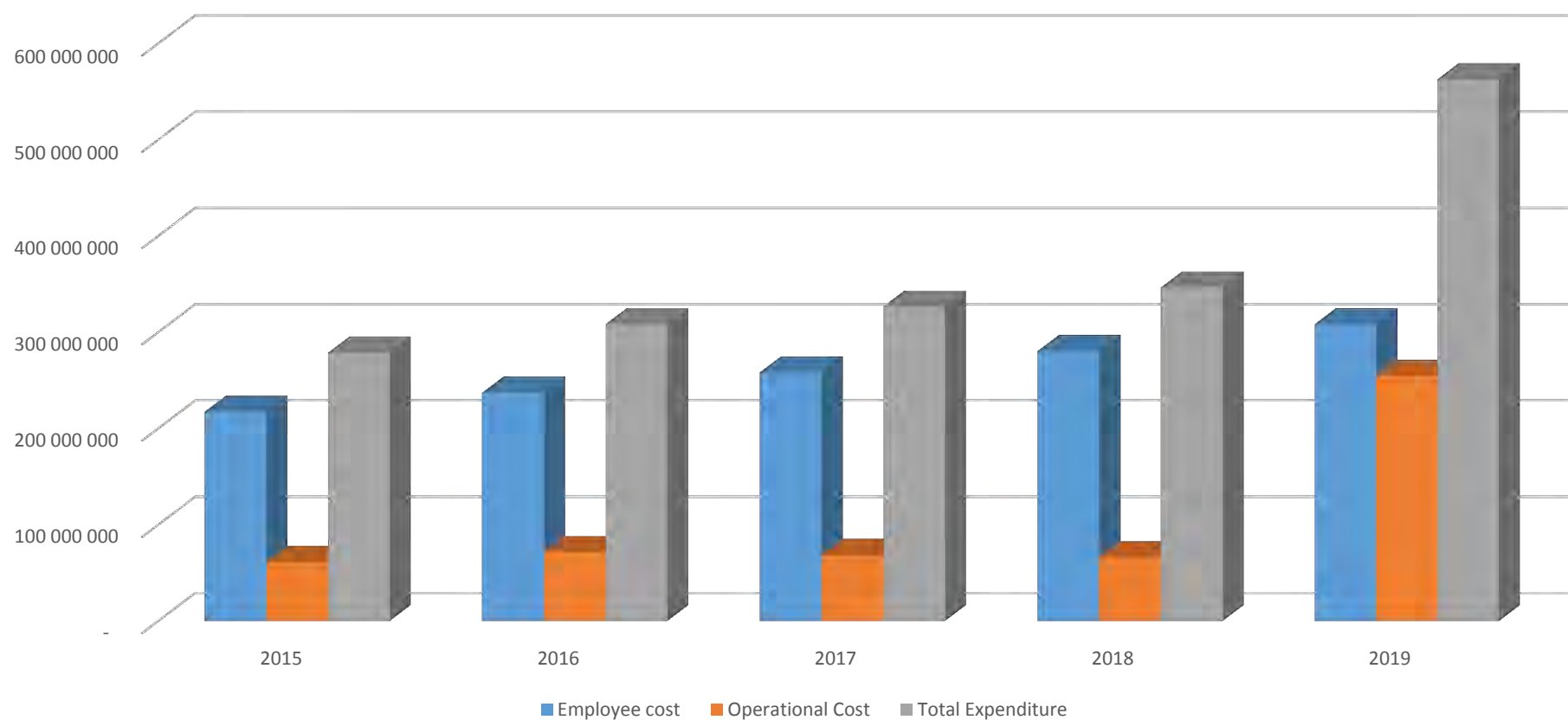
2019 Expenditure



2019 Revenue



# NRCS Expenditure Breakdown as at 31 March 2019



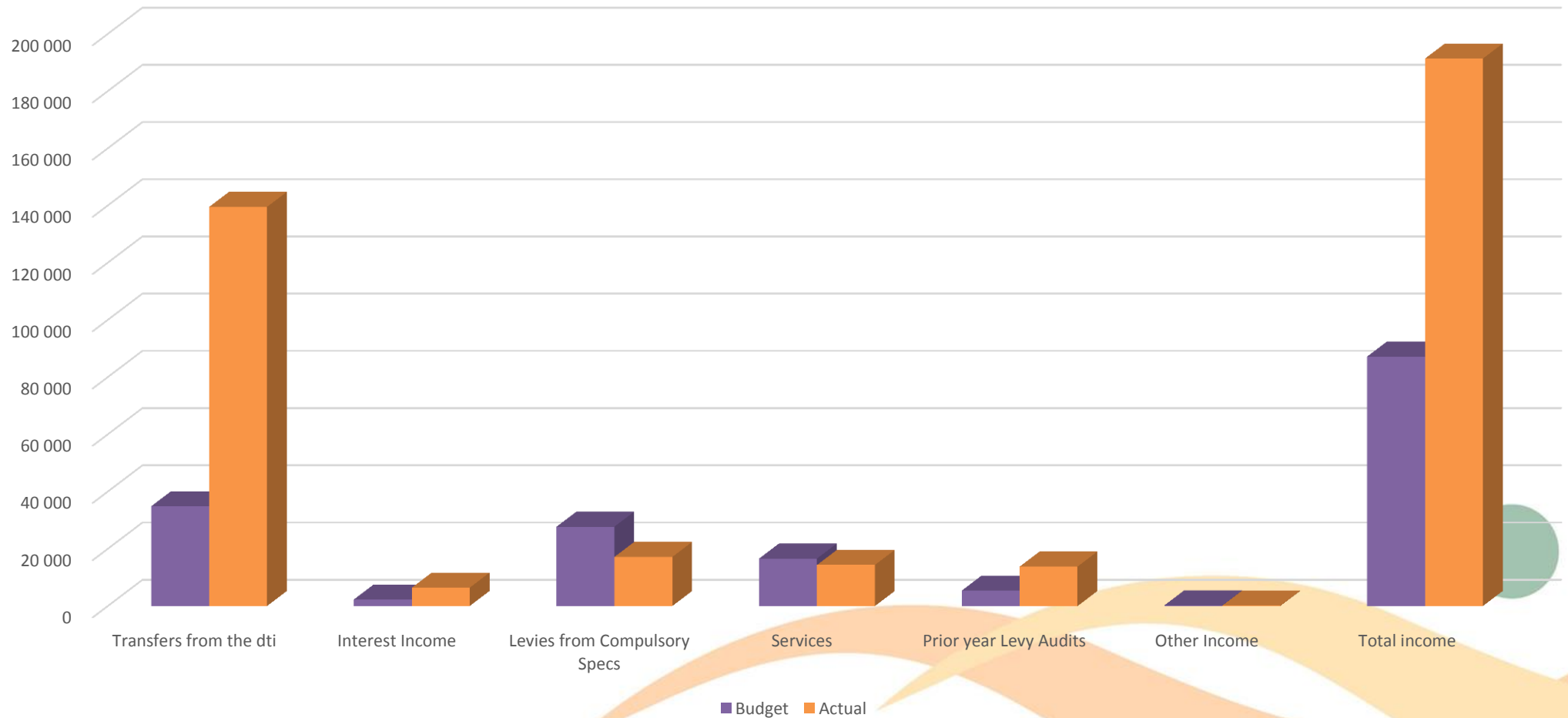
	2015	2016	2017	2018	2019
Employee cost	217 186 399	237 057 787	258 177 098	280 262 027	308 274 400
Operational Cost	61 327 189	71 253 020	68 443 235	66 143 591	254 502 510
Total Expenditure	278 513 588	308 310 807	326 620 334	346 405 618	562 776 910

## Financial Performance Quarter 1 Report

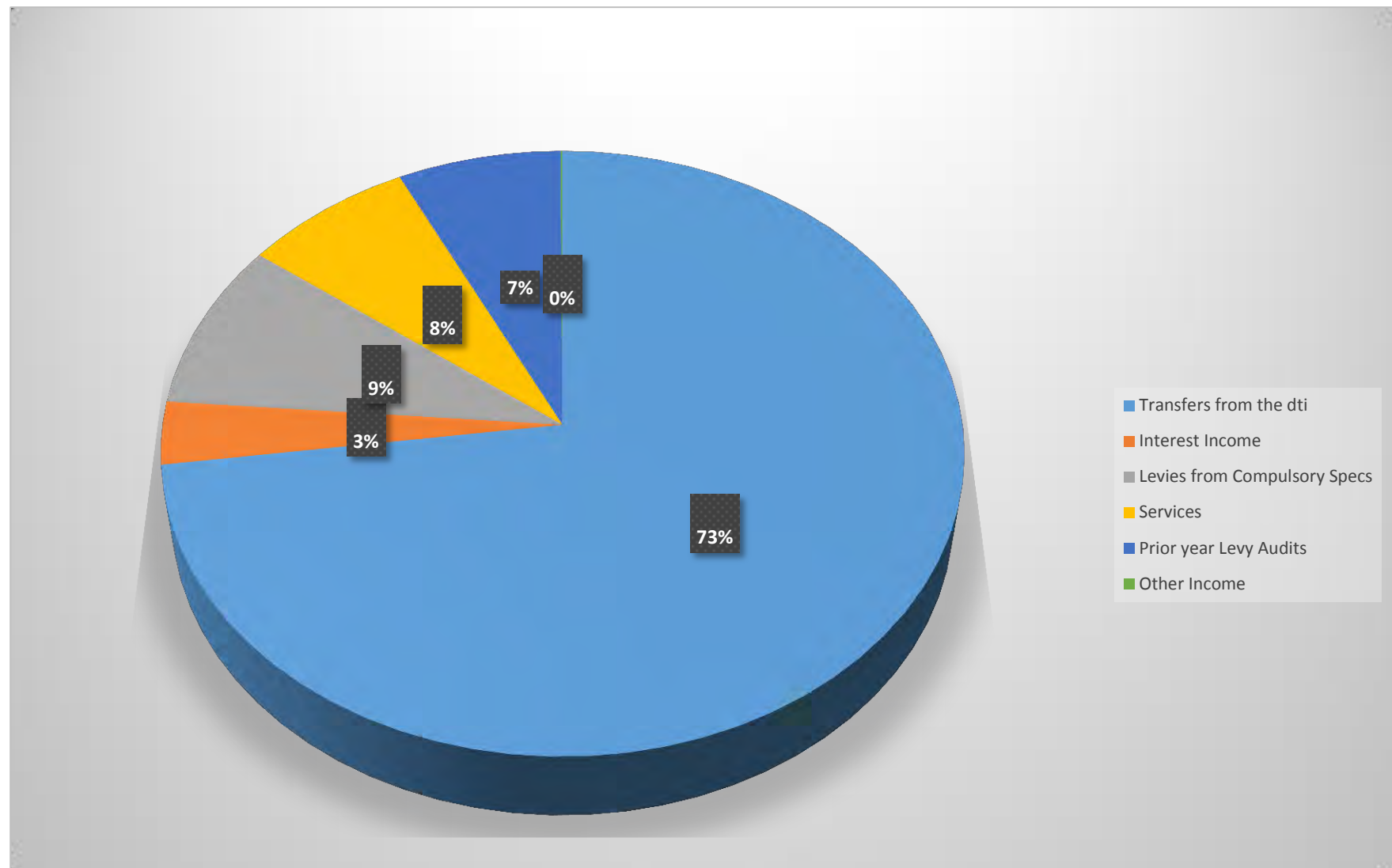
# NRCS 1st Quarter 2019/2020 Financial Performance as at 30 June 2019

Programme/Division/Unit	2018/19 Actuals	2019/20 Approved Budget	Quarter1 of 2019/2020				Year-to-date Expenditure			
			Budget	Actual	Variance		Budget	Actual	Variance	
	R'000	R'000	R'000	R'000	R'000	Percentage	R'000	R'000	R'000	Percentage
<b>Income</b>										
Transfers from the dti	146 104	139 500	34 875	139 500	104 625	300%	34 875	139 500	104 625	300%
Interest Income	23 080	9 196	2 298	6 395	4 097	178%	2 298	6 395	4 097	178%
Levies from Compulsory Spec	228 571	234 405	27 725	17 153	-10 572	-38%	27 725	17 153	-10 572	-38%
Services	57 546	65 102	16 606	14 360	-2 246	-14%	16 606	14 360	-2 246	-14%
Prior year Levy Audits	22 377	21 640	5 410	13 792	8 382	155%	5 410	13 792	8 382	155%
Other Income	635	1 031	254	165	-89	-35%	254	165	-89	-35%
Total income	478 312	470 874	87 168	191 364	104 196	120%	87 168	191 364	104 196	120%
<b>Expenditure</b>										
Compensation of Employees	308 274	364 596	89 473	72 541	16 932	19%	89 473	72 541	16 932	19%
Goods and Services	108 889	106 278	28 907	21 105	7 802	27%	28 907	21 105	7 802	27%
Total Expenditure	417 163	470 874	118 380	93 646	24 734	21%	118 380	93 646	24 734	21%
Surplus/(Deficit)	61 149	0	-31 212	97 718	128 929	413%	-31 212	97 718	128 929	413%

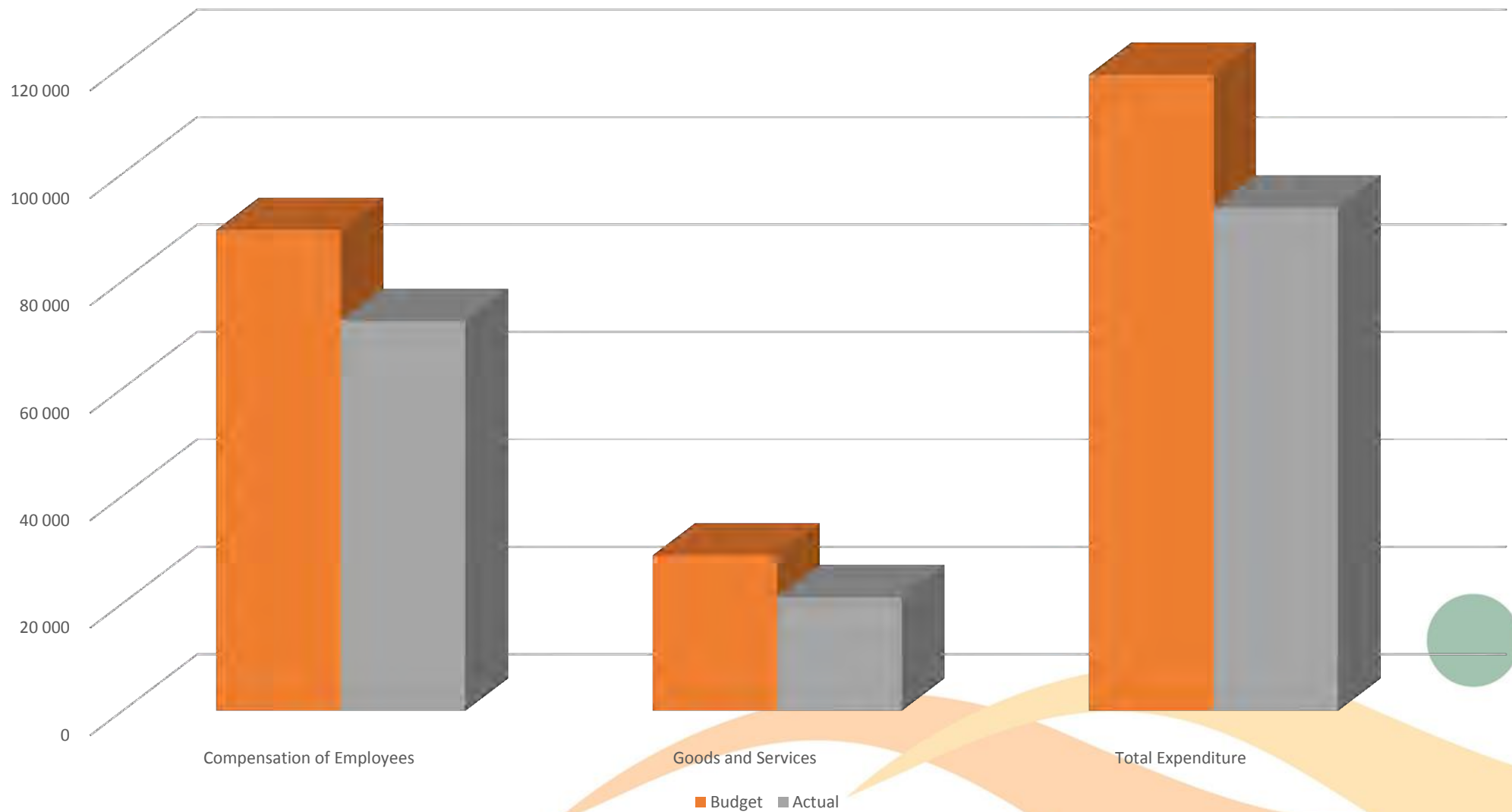
# NRCS 1st Quarter 2019/2020 Revenue: Budget versus Actual



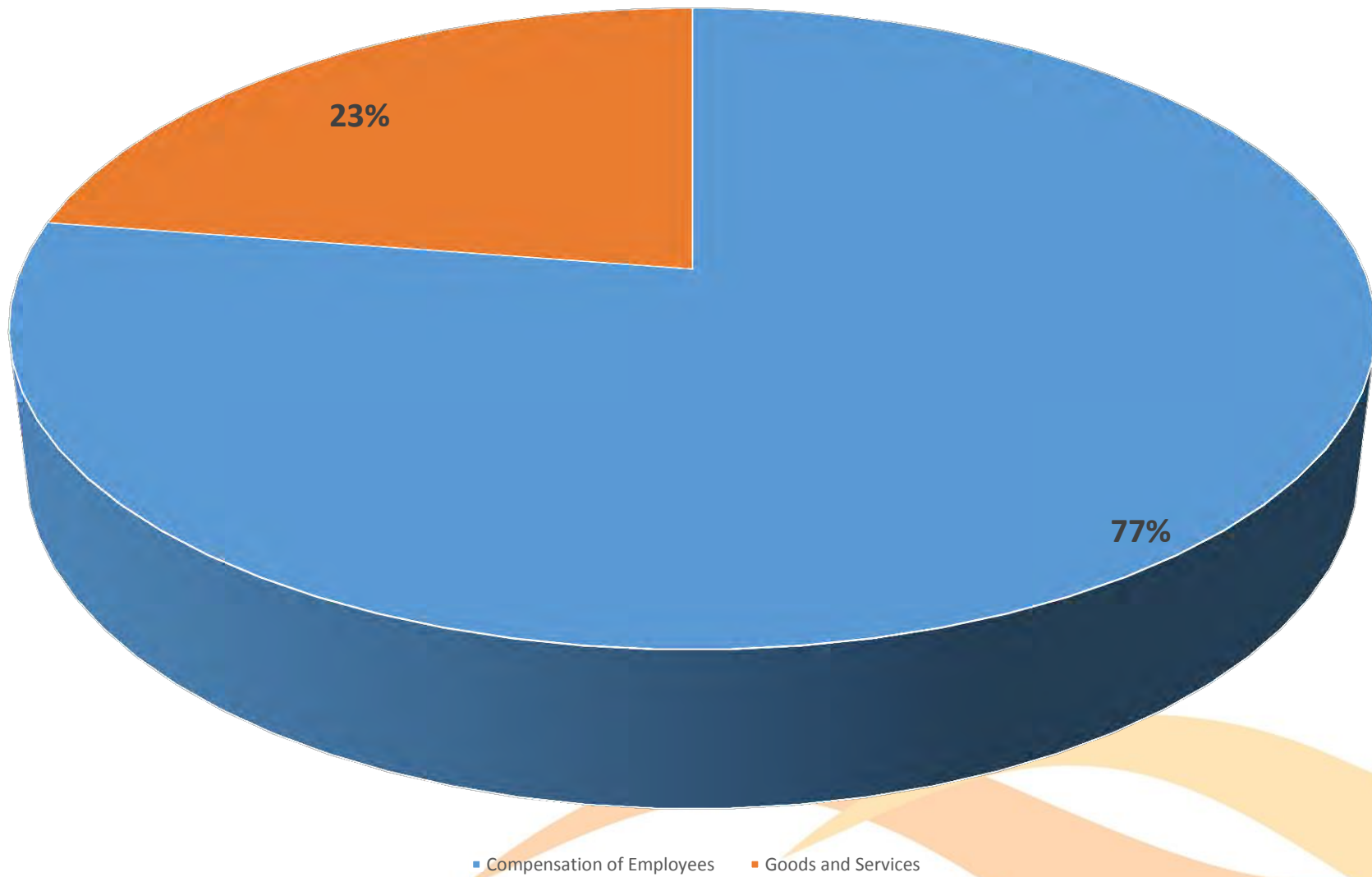
# NRCS 1<sup>st</sup> Quarter 2019/2020 Revenue Streams



# NRCS 1st Quarter 2019/2020 Expenditure Breakdown



# NRCS 1st Quarter Expenditure as at 30 June 2019





## **Auditor General Report and Progress on the implementation of Actions to address Findings**

# Basis for Non-Exchange Revenue Audit Qualifications

## Completeness

- not all registered companies submit levy declaration forms to the NRCS as per regulation;
- not all known regulated companies are registered on the NRCS database;
- consequently NRCS estimated the levy declaration of 10-15% of non-compliant companies;
- the AGSA qualified the NRCS based on the estimation calculation method.

## Cut-off

- all public entities financial year –end runs from 1 April to 31 March compared to the levy declaration periods which is based on a calendar year from 1 January to 31 December;
- the mandatory levy periods period as per regulation is made up of 4 levy declaration periods;
- the bi-annual period (A&B) forms are accompanied by payments; whilst the quarterly forms are used for reporting purposes;
- first quarter (January to March) declaration forms are used to correctly account for the revenue in the correct financial year;
- the NRCS used the 2018 A declaration form to account for the cut-off revenue;
- the AGSA qualified the NRCS based on declaration form used and not accounting for any new companies that did not submit 2018 A.

# Basis for Qualification (continued)

- ❑ Employee benefit obligation – unable to submit information timeously
  - ❑ Action to be taken – consequence management
  
- ❑ Provision for leave – unable to submit information timeously
  - ❑ Action to be taken – consequence management

# Revenue Qualification Plan: Progress

Plan	Progress to date
<ul style="list-style-type: none"> <li>• Ensure all known companies are registered on the NRCS Financial System</li> </ul>	<ul style="list-style-type: none"> <li>• all companies issued with LOAs are registered on the NRCS financial System;</li> <li>• during inspections some companies that were found to be potential Levy payers however, were not registered;</li> <li>• project was set-up to manage and ensure all companies are registered and levy declaration forms are completed since the commencement of business;</li> <li>• business processes were amended to incorporate registration of companies as and when they are inspected and / or when an application for an approval certificate was submitted to the NRCS.</li> </ul>
<ul style="list-style-type: none"> <li>• Completeness of Revenue               <ul style="list-style-type: none"> <li>- drive voluntary compliance</li> <li>- synergies with core business</li> <li>- through Audit Qualification Committee</li> <li>- estimation of revenue</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• the NRCS embarked on project to ensure 100% compliance of all known companies;</li> <li>• work with all internal stake-holders: management, inspectors, LOA office;</li> <li>• monitor progress and develop plans at the committee meetings;</li> <li>• the NRCS developed a standard operating procedure to estimate the levy revenue of non-compliant companies;</li> <li>• As at 31 March 2019 100% compliance was realised by estimating between 10-15% of levy revenue;</li> <li>• the Auditor-General SA (AGSA) general raised concerns about the economic drivers used in estimation;</li> <li>• the NRCS will implement the AGSA recommendations and correctly estimate the levy revenue;</li> <li>• modernisation project.</li> </ul>

# Revenue Qualification Plan: Progress (continued)

Plan	Progress to date
<ul style="list-style-type: none"><li>• Introduce LOA validity period</li></ul>	<ul style="list-style-type: none"><li>• In progress as and when the VCs get amended</li></ul>
NRCS Modernisation	<ul style="list-style-type: none"><li>• Delays in appointment of Service Provides- expedite the procurement process and improve internal control mechanism in SCM Unit</li></ul>
<ul style="list-style-type: none"><li>• ERP system implementation</li><li>• Business process re-design</li></ul>	<ul style="list-style-type: none"><li>• BSC in process to develop Specifications</li><li>• Completed through Org Review</li></ul>
SARS Collaboration	<ul style="list-style-type: none"><li>• Code alignment project with SARS is in implementation phase.</li></ul>
<ul style="list-style-type: none"><li>• Information sharing and system integration</li></ul>	

# Thank You

# Abbreviations and Acronyms

- ❑ AG – Auditor General
- ❑ CMM – Chemicals, Materials and Mechanical
- ❑ DAFF – Department of Agriculture, Forestry and fisheries
- ❑ FY – Financial year
- ❑ GRAP – Generally Recognised Accounting Practice
- ❑ LOA – Letter of Authority
- ❑ NBR – National Building Regulations
- ❑ NCC – National Consumer Commission
- ❑ SABS – South African Bureau of Standards
- ❑ SAPS – South African Police Services
- ❑ SARS – South African Revenue Services
- ❑ TR – Technical Regulation
- ❑ VC – Compulsory Specification
- ❑ YTD – Year to Date