

Presentation to the Portfolio Committee on Trade and Industry

NRCS Annual Report – 2013-2014 Financial year
NRCS Quarterly Report – Quarter 1 of 2014

14 October 2014

In attendance from NRCS

Mr. Asogan Moodley

Chief Executive Officer

Ms. Reshma Mathura

Chief Financial Officer

Mr. Edward Matemba

Chief Risk and Strategy Officer

Purpose

To brief the Portfolio Committee on Trade and Industry on:

- **The Annual Report of the NRCS for the 2013 – 2014 Financial year**
- **The performance of the NRCS for Quarter 1 of the 2014 Financial year**

Scope

- Background**
- Overview of strategic outcomes**
- Annual report**
 - **Performance information**
 - **Financial overview**
 - **Audit report**
- Quarterly report**
 - **Performance information**
 - **Financial overview**
- Challenges**



Background



Legislative Mandate

Mandate of the NRCS is derived from the following Acts.

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

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

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

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

Organisational Mandate

Mission and Vision

NRCS Vision

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

NRCS Mission

**Dedicated to protect South
Africans by developing
compulsory specifications
and technical
regulations, and
maximizing compliance of
regulated products and
services**

History of NRCS

Pre 2008

- NRCS was previously the Regulatory Division of the SABS

2008

- NRCS was established on 1 September 2008
- Schedule 3A Public Entity in terms of the PFMA
- Appointment of the Interim Management Committee

2009 to 2013

- Implemented updated 5-year strategic plan
- Research and Introduction of Risk Based Approach
- Piloting of the Border Enforcement Strategy

NRCS Future

- To minimise non compliances by keeping the quantum to the barest minimum
- Utilise innovative and cutting edge methodologies and technologies

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
Legal Metrology	Calibration of measuring instruments, weights, measures and gaming equipment
Building Regulations	Ensure uniform interpretation of NBR Act, administer review Board, set minimum regulatory requirements in standards, regulations, Building control officers convention and Building control officers training

NRCS Strategy and enablers

- **Strategy to focus on Source Inspections**

- Source is point of entry or manufacture
- lock out non-compliant products before the products enter point of trade and ensure that NRCS is more efficient in regulating the market.
- Retail and distributor inspections are meant for intelligence gathering and ensure that non-compliant products are kept out of the market.

- **Enablers**

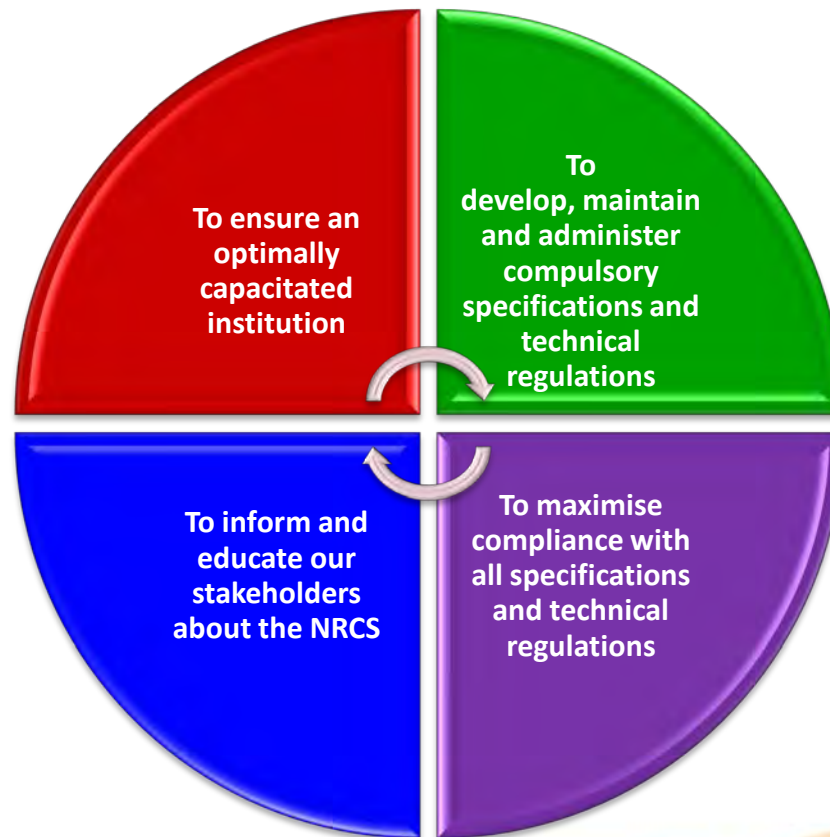
- intelligent utilisation of information technology and effective supervision.
- Collaboration with SARS, SABS, DAFF, NCC, DoH, SAPS, Home Affairs,
- Effective risk profiling through SARS platform reducing delays at ports
- Market Intelligence – Bill of lading, manifests

Highlights

- Held 3 destruction functions (CT, Dbn, Pta)
 - Goods to the value of R55m destroyed
- Over the past 5 years NRCS destroyed products amounting to R438m
- Total value of non-compliant products for the 1st quarter 2014/15 was about R115m, R61m was in Durban
- Non-compliant pre-packed goods amounted to R 34,044m for Quarter 1. The major contributors to the cost savings to consumers were imported seafood products and whisky, which amounted to about R19m, both of which were found to be of short mass/measure.
- Risk profiling through SARS platform reducing delays at ports
- Implementation of the CRM System
- Operationalised border enforcement at the following ports of entries: Durban, City Deep, Cape Town, Port Elizabeth, Beitbridge and Libombo.
- Improved performance reporting and management
- Distributed 1500 compliant paraffin stoves to a number of informal settlements in exchange of non-compliant ones
- Settlement of Labour disputes

Overview of strategic outcomes

Overview of strategic outcomes Per the Strategic Plan



Annual Report: Performance Information

Performance Information (1)

Expected Outcomes/	Measurable Objective/ Output	2013 / 2014 Target	Actual Performance 2013/14	Reason for Variance
Increase compliance to compulsory specifications and technical regulations	Inspections conducted to eradicate non-compliances within the food and fisheries NRCS Regulated industries	Local produced products: Inspection target: 100% of all declared canned fishery and meat products produced and frozen products as per documented monitoring process	Local produced products: The NRCS Inspected 100% of all declared canned fishery and meat products produced and frozen products. Total Inspections were 6159	No Variance
		Imported products: Inspection target: 100% of all declared canned fish, meat and frozen fishery product consignments	Imported products: The NRCS Inspected 100% of all declared canned fish, meat and frozen fishery product consignments Total Inspections amounted to 13124	No Variance
		Exported products Inspection target: 100% of all requests received for export inspections and certificates for fish & fishery products and canned meat consignments	Exported products Inspection target: The NRCS Inspected 100% of all requests received for export inspections and certificates for fish & fishery products and canned meat consignments. Total Inspections amounted to 13793	No Variance

Performance Information (2)

Expected Outcomes/	Measurable Objective/ Output	2013 / 2014 Target	Actual Performance 2013/14	Reason for Variance
Increase compliance to compulsory specifications and technical regulations	Inspections conducted to eradicate non-compliances within the food and fisheries NRCS Regulated industries	Inspection target: Factory inspections: 272 Vessel inspections: 451	The NRCS inspected 446 factories The NRCS Inspected 403 fishing vessel	The variance is due to the closure of Squid Industry. Upon closure the vessels that were used by this industry did not require inspection as they are out of service.
Increase compliance to compulsory specifications and technical regulations	Inspections conducted to eradicate non-compliances within the Automotive, Electro-technical and chemical industries/sectors	Target for Chemicals, Materials and Mechanicals industry and products 4,960 inspections Target for Automotive industry and products: 4,000 inspections Target for Electro-technical industry and products: 4,000 inspections	The NRCS conducted 5192 inspections Chemicals, Materials and Mechanicals products The NRCS conducted 4054 inspections for Automotive products, manufacturers, builders and Importers The NRCS conducted 4338 Inspections for Electro-technical products	

Performance Information (3)

Expected Outcomes/	Measurable Objective/ Output	2013 / 2014 Target	Actual Performance 2013/14	Reason for Variance
Increase compliance to compulsory specifications and technical regulations	Pre-market approvals to lock-out non-compliant products	Number of working days to issue an approval or to evaluate an application for approval: 21 working days	43,97% (3790 out of 8620) approval applications were approved within 21 working days	The NRCS experienced an increase in the approvals applications. The increase in applications is attributed to the increase in imported products and the success of the NRCS Border Enforcement approach. Due to the presents of NRCS at the ports of entry, the importers are forced to apply to the NRCS for the products to be allowed on the South African market.
Increase compliance to compulsory specifications and technical regulations	Inspections conducted to eradicate non-compliances within the Trade Metrology Domain	3,951 inspections	The NRCS conducted 4,287 inspections within the Trade Metrology domain and as per the NRCS inspection procedure	

Performance Information (4)

Expected Outcomes/	Measurable Objective/ Output	2013 / 2014 Target	Actual Performance 2013/14	Reason for Variance
Build a regulatory framework that is sustainable and that protects South African citizens	Finalise new compulsory specifications/ technical regulations and amend (or withdraw) compulsory specifications as per IPAP and other market requirements (as well as reviews)	9 compulsory specifications/technical regulations	8 compulsory specifications/technical regulations	The Compulsory Specifications process can only be finalized where there are South African National Standards. In some instances there were delays in finalization of the South African National Standards and lack of agreement with the Industry on finalization of the projects.

Annual Report: Financial overview

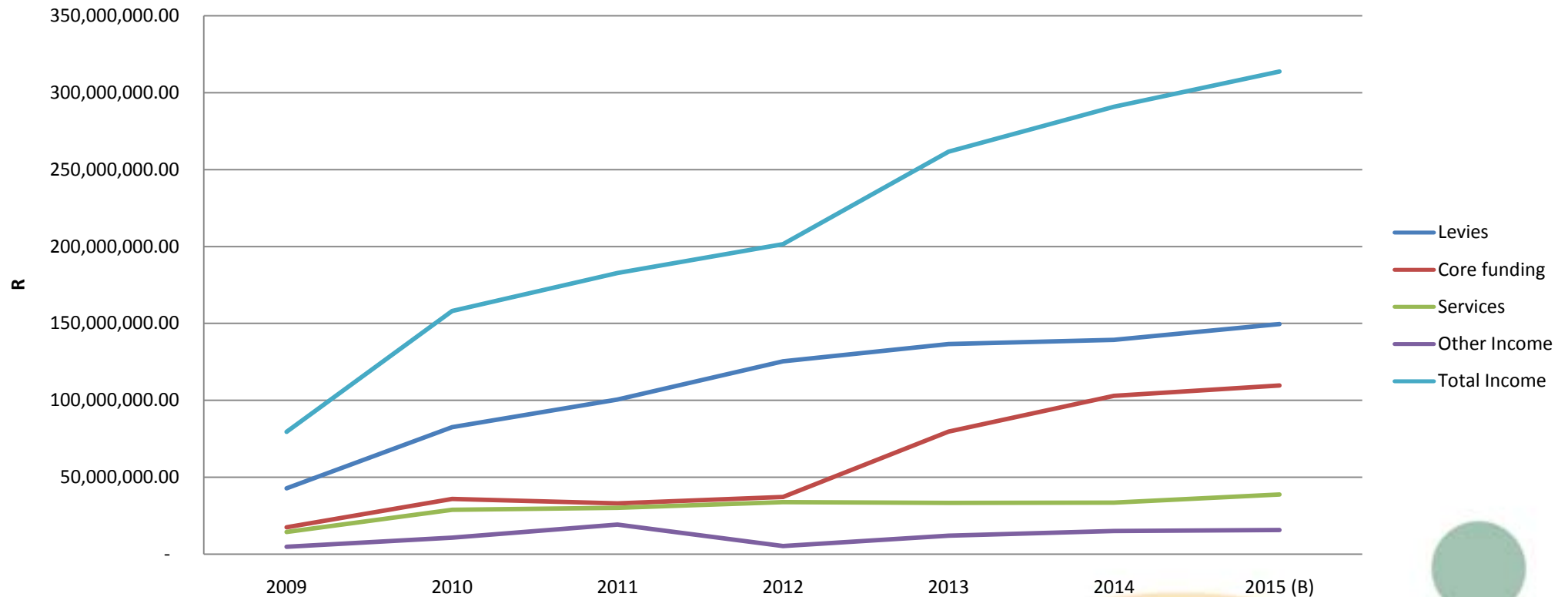
Financial Overview

Financial information for the 2013/2014 reporting period

R'000	2013/2014 Actual	2013/2014 Budget	Variance	2012/2013 Actual	2012/2013 Budget	Variance
REVENUE	290,843	270,148	20,695	261,740	235,883	25,857
Levies	135,803	123,906	11,897	131,826	110,560	21,266
Levy audit	3,434	3,500	(66)	4,751	4,000	751
Service revenue	33,512	33,874	(362)	33,381	35,930	(2,549)
Transport annual registration fee	1,575	1,633	(58)	1,614	1,326	288
Government grants and core funding	103,000	103,000	-	79,684	79,170	514
Other revenue/ funding	6,332	1,175	5,157	5,722	3,697	2,025
Interest income	7,187	3,060	4,127	4,762	1,200	3,562
EXPENDITURE	248,266	270,121	21,855	224,106	234,607	10,501
Compensation of employees	180,665	187,771	7,106	148,486	156,167	7,681
Goods and services	63,501	78,409	14,908	72,275	72,497	222
Depreciation and amortisation	2,697	3,941	1,244	2,269	5,808	3,539
Other expenses	1,403	-	(1,403)	1,076	135	(941)
SURPLUS FOR THE YEAR	42,577	27	42,550	37,634	1,276	36,358

Financial Overview: Revenue

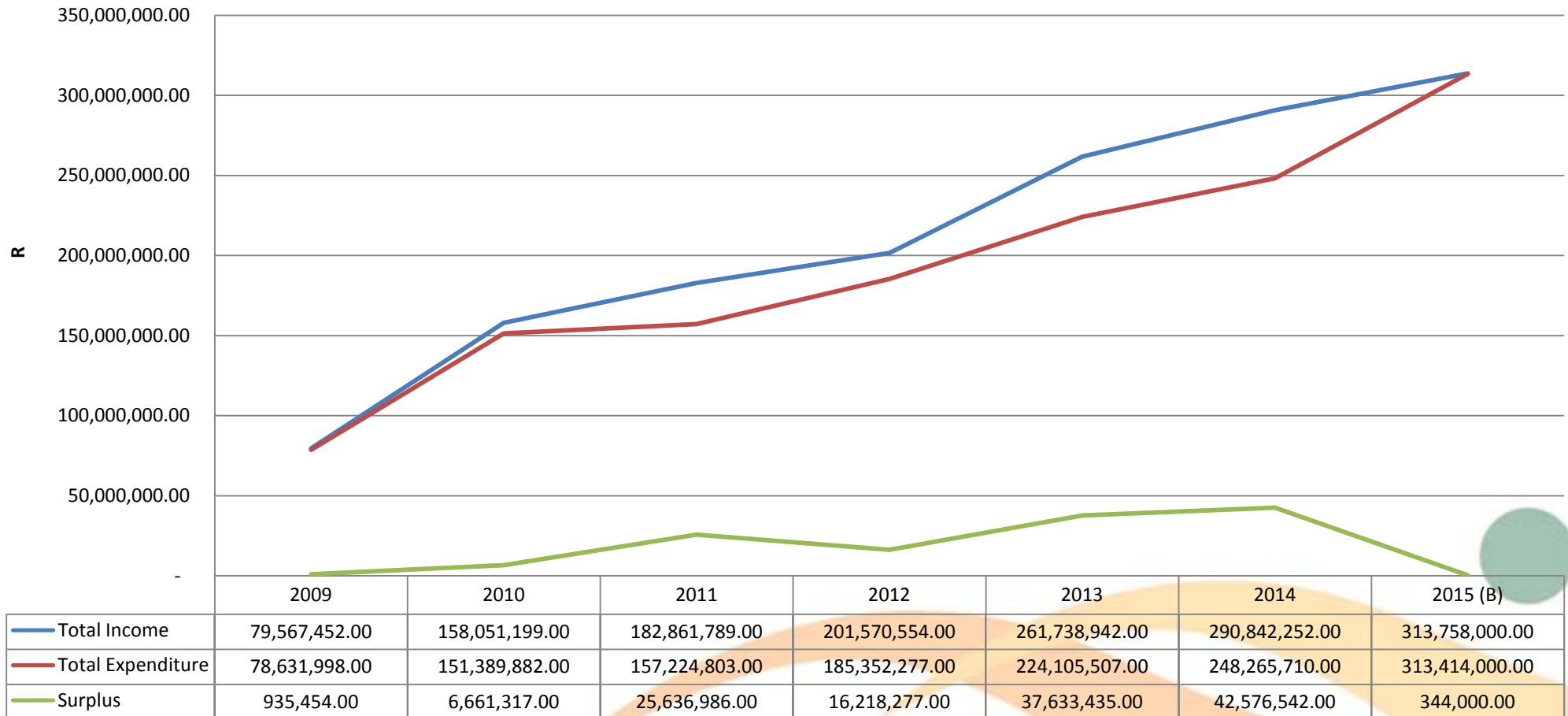
6 Year review of revenue growth



Levies	54%	52%	55%	62%	52%	48%	48%
Core funding	22%	23%	18%	18%	30%	35%	35%
Services	18%	18%	16%	17%	13%	12%	12%
Other Income	6%	7%	11%	3%	5%	5%	5%
Total Income	100%	100%	100%	100%	100%	100%	100%

Financial Overview: Income vs. Expenditure

Income against expenditure 6 year review



Annual Report: Audit Report

NRCS Audit report

Qualification	Affected areas	Management interventions	Status
<p>Revenue</p> <ul style="list-style-type: none"> • First time qualification • Levy periods that have been used for the past 20 years that are not aligned to the reporting periods in terms of GRAP 23 • Error could not be quantified by means of actuarial estimate as AG found revenue to not match inspection records 	<ul style="list-style-type: none"> • Non-exchange revenue from levies for compulsory specifications • Trade and other receivables from non-exchange transactions 	<ul style="list-style-type: none"> • Gazette quarterly declaration of levies - Completed • Review total revenue ICT System functionality • Implement online customer portal, e-forms and for input of levies • Review capacity in levy and levy audit sections and staff for maximum efficiency - WIP • Annual valuation of levies (if required) • Integrate JDE, CRM, customer database, all other ICT systems with appropriate exception reporting on levies • Establish levy payers not paying levies by comparing JDE to inspection and approval information and customer database- Prior year - WIP • Implement an integrated ERP for NRCS 	In progress
<p>Employee cost</p> <ul style="list-style-type: none"> • First time qualification • A wage settlement agreement was implemented that relied on appointment dates • Appointment dates could not be accurately confirmed from inherited HR records 	<ul style="list-style-type: none"> • Employee benefit obligations for long service leave awards • Trade and other payables from exchange transactions for salary related accruals • Provisions for leave pay 	<ul style="list-style-type: none"> • Update all HR polices - WIP • Appoint Head of HR and HR Manager - WIP • Implement an HR management system • Implement an HR file plan - WIP • Audit all HR files for completeness. Prepare and implement a plan of action for inconsistencies identified. - WIP • Issue letters of confirmation whenever there are changes to individual's salaries • Recalculate the payroll for FY 2014 and YTD FY 2015 after the full employee file audit is conducted. - WIP 	In progress

Quarterly Report: Performance Information

Performance Information (1)

Output	Annual Target	1st Quarter milestones	Actual Achievement	Comments	Dashboard
Strategic Goal 1; To develop, maintain and administer compulsory specifications and technical regulations					
Develop a set of Compulsory Specifications/Technical Regulations that are responsive to market needs	12 Compulsory Specifications/ Technical Regulations	0 Compulsory Specifications/ Technical Regulations	0 Compulsory Specifications/ Technical Regulations	There are 15 Copulsory Specifications that are currently being developed	
Ensure the uniform understanding & implementation of the NBRBS Act nationally	90 days from the date NRCS receives a review board appeal to the date the Board issues a tribunal report	90 days from the date NRCS receives a review board appeal to the date the Board issues a tribunal report	0 cases adjudicated by the review Board. Three cases were received during the first quarter.	No Tribunal hearings were held during the Quarter due to the suspension of services by the Review Board Chairperson. The NRCS and the dti are currently in the process of engaging the Chairperson to resolve the matter	
	100% of requests to be attended to within 90 days	100% of requests to be attended to within 90days	There were no requests received for the quarter under review. NRCS however attended to two investigations pertaining to the Tongaat Mall and the Johannesburg Municipal Power Station building collapse.		

Performance Information (2)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Reason for Variance	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the Automotive Industry	Number of working days to process approvals for the automotive industry, being from the date received by the NRCS to the date approved or rejected.	120 working days	120 working days	99.44% (1069 out of 1075 processed within 120 days) 401 applications were outstanding at the beginning of the quarter, 1122 applications were received during the year and 448 applications were outstanding at the end of the quarter		Green
	Number of Source Inspections (excluding border inspections) within the automotive industry	2400	720	590	There was concentration on the source and retail market, as the NRCS detected non-compliances at the retail level.	Red
	Number of Border inspections within the automotive industry	800	240	354		Green
	Number of retail inspections within the automotive industry	800	240	319		Green

Performance Information (3)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Reason for Variance	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the chemicals, materials and mechanicals sectors.	Number of working days to process approvals for the chemicals, materials and mechanicals sectors, being from the date received by the NRCS to the date approved or rejected.	120 working days	120 working days	79% (Processed 74 out of 94 within 120 days)	Insufficient documentation submitted for approvals process for the remaining applications.	Red
	Number of Source Inspections (excluding border inspections) within the chemicals, materials and mechanicals sectors (CMM)	2240	672	338	The anticipated changes in the Compulsory specification of plastic bags have led to a reduction in inspections in the sector and one employee is on maternity leave	Red
	Number of Border inspections within CMM sectors	1120	336	224	There was concentration on the retail market, as the NRCS detected non-compliances at the retail level.	Red
	Number of retail inspections within CMM sectors	2240	672	935		Green

Performance Information (4)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Reason for Variance	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the electro-technical industries	Number of Source Inspections (excluding border inspections) within the electro-technical industries	440	88	166	The positive variance is mainly attributed to the availability and access to shipping manifests allowing the NRCS to conduct shipping profiling and directing resources towards the regulated market.	Green
	Number of Border inspections within the electro-technical industries	2200	440	608		Green
	Number of retail inspections within the electro-technical industries	1760	352	450		Green
	Number of working days to process approvals for the electro-technical industry, being from the date received by the NRCS to the date approved or rejected.	120 working days	120 working days	94.05% (1374 out of 1461) applications processed within 120 days.	The increase in the volume of work due to the success of Border Enforcement in identifying products without the Letters of Authority (LOAs), leading to importers applying for LOAs when the consignment has been stopped by the NRCS	Red

Performance Information (5)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Reason for Variance	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations						
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the legal metrology domain	Number of Source Inspections within the legal metrology domain	4151	1045	1441	The positive variance is due to new inspectors that qualified during the Quarter under review	Green
	Number of retail Inspections within the legal metrology domain	1038	261	324		Green
	Number of working days to process type approvals for measuring instruments, being from the date received by the NRCS to the date approved or rejected	120 working days	120 working days	100% of the 40 type approval applications processed was processed within 120 days.		Green
	Number of working days to process approvals for the gaming equipment, being from the date received by the NRCS to the date approved or rejected.	21 working days	21 working days	89% (226) of the 255 gaming applications processed was processed within 120 days.	Applications submitted without the correct Test Reports and incomplete application forms submitted to the NRCS.	Red

Performance Information (6)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations					
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the foods and associated industries	Percentage of Inspections conducted on locally produced canned fishery and meat products	100% of all declared locally produced canned fishery and meat products produced.	100% of all declared Locally produced canned fishery and meat products produced.	Inspected 100% of all declared canned fishery and meat products produce. Canned Fish: 687 Canned Meat: 1246	
	Number of inspections conducted on locally produced Frozen products	1033 frozen fish inspections	258 frozen fish inspection	Conducted 283 inspections for Frozen products	
	Percentage of inspections conducted on all declared Imported canned fish, meat and frozen fishery product consignments imported	100% of all declared Imported canned fish, meat and frozen fishery product consignments imported	100% of all declared Imported canned fish, meat and frozen fishery product consignments imported	Inspected 100% of all Imported canned fish, meat and frozen fishery product consignments Canned and Frozen Fish: 2045	

Performance Information (7)

Output	Performance Measure or Indicator	Annual Target	1st Quarter milestones	Actual Achievement	Dashboard
Strategic Goal 2: To maximise compliance with all specifications and technical regulations					
Increase market surveillance activities and enforce compliance through regulations based on sound market intelligence in the foods and associated industries	Percentage of inspections conducted on requests received for fish & fishery and canned meat export products	100% of all requests received for export inspections and certificates for fish & fishery products and canned meat consignments	100% of all requests received for export inspections and certificates for fish & fishery products and canned meat consignments	Inspected 100% of all requests received for export consignments for fish & fishery products and canned meat consignments Exported product: 3423	
	Number of Inspections conducted on fishery and canned meat processing factories and vessels	1005 Facilities inspections	251 Facilities inspections	Conducted 234 facilities Inspections	

Quarterly Report: Financial overview

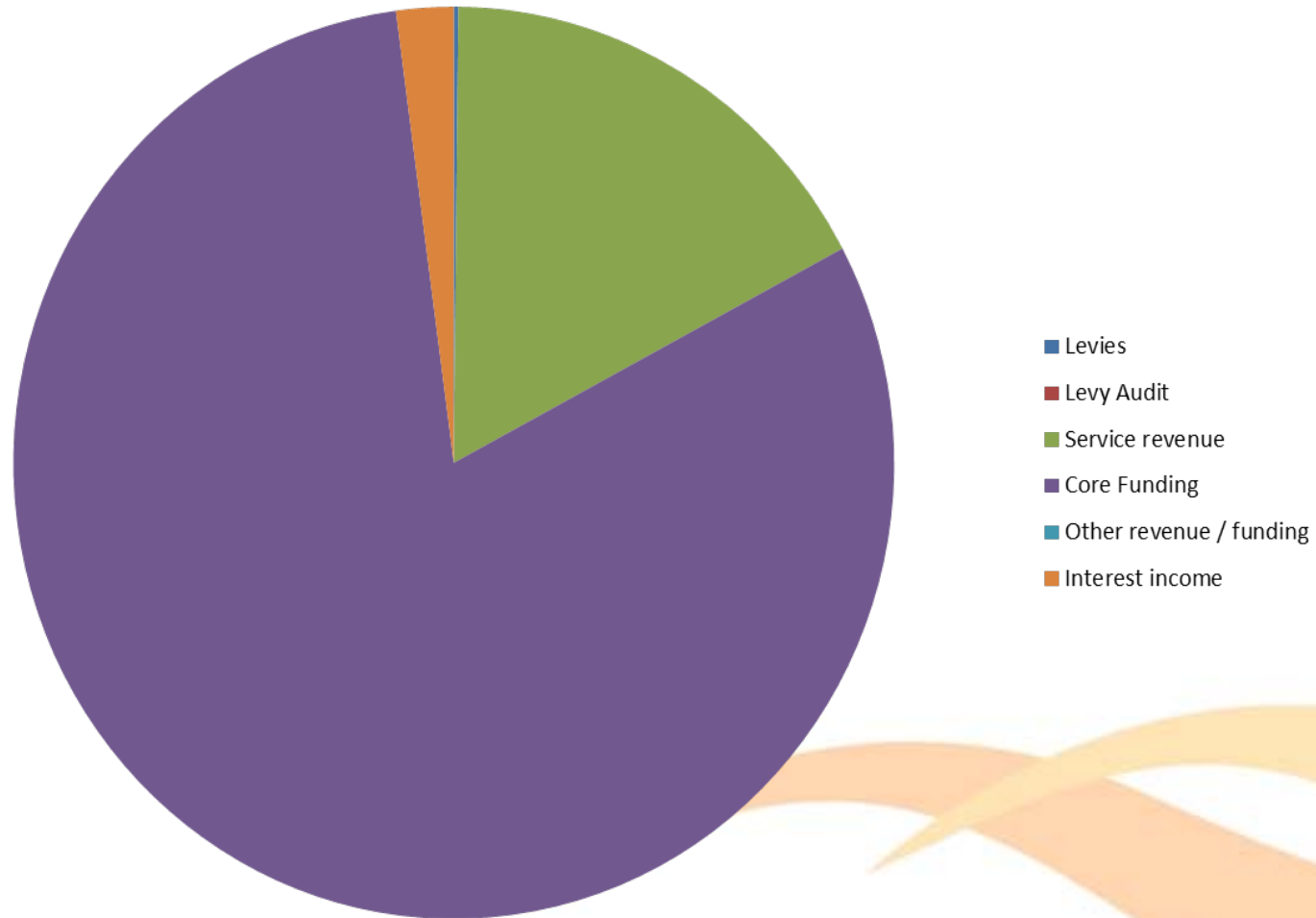
Financial Overview

Actual versus Budget for Quarter 1

Revenue	2013/14 (A)	2014/15 (B)	Q1 (B)	Q1 (A)
Levies	137,378.00	149,515.00	49,838.33	(114.00)
Levy Audit	3,433.00	4,500.00	1,500.00	-
Service revenue	39,844.00	39,424.00	9,856.00	11,588.00
Core Funding	103,000.00	109,734.00	54,867.00	54,867.00
Other revenue / funding	-	7,000.00	-	-
Interest income	7,187.00	3,585.00	896.25	1,429.00
	290,842.00	313,758.00	116,957.58	67,770.00
EXPENDITURE	2013/14 (A)	2014/15 (B)	Q1 (B)	Q1 (A)
Compensation of employees	177,332.00	206,452.00	51,613.00	43,394.00
Goods and services	67,529.00	90,537.00	23,209.25	11,235.00
Depreciation and Amortisation	3,273.00	4,025.00	1,006.25	479.00
Unclassified current expenses	132.00	12,400.00	3,100.00	434.00
	248,266.00	313,414.00	78,928.50	55,542.00
Surplus	42,576.00	344.00	38,029.08	12,228.00

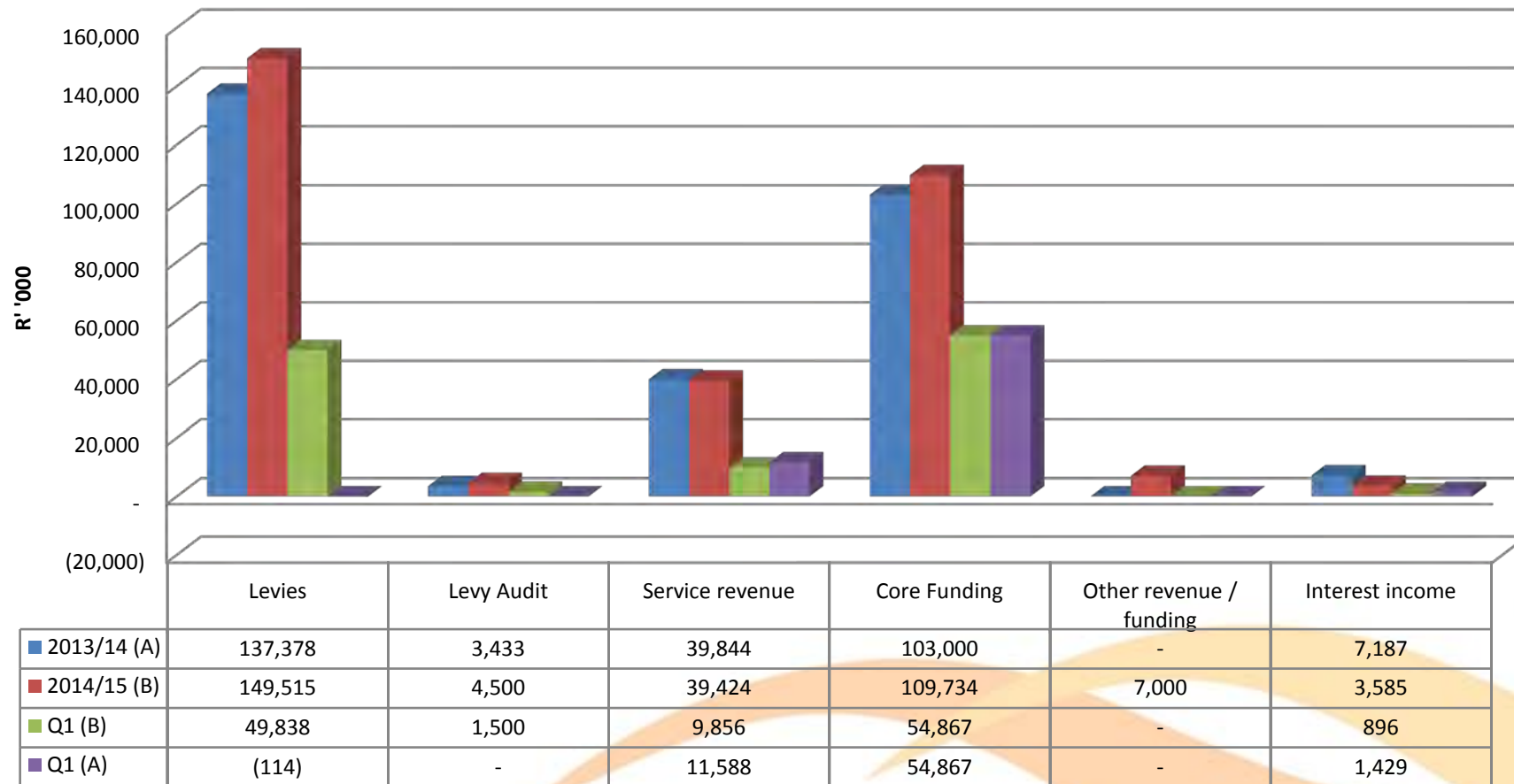
Financial Overview: Revenue

Composition of revenue for Year-to date (July 2014)



Financial Overview: Revenue

Actual versus budget revenue for each revenue stream compared to the prior year.
Total revenue of R67 770 in relation to budget of R116 958



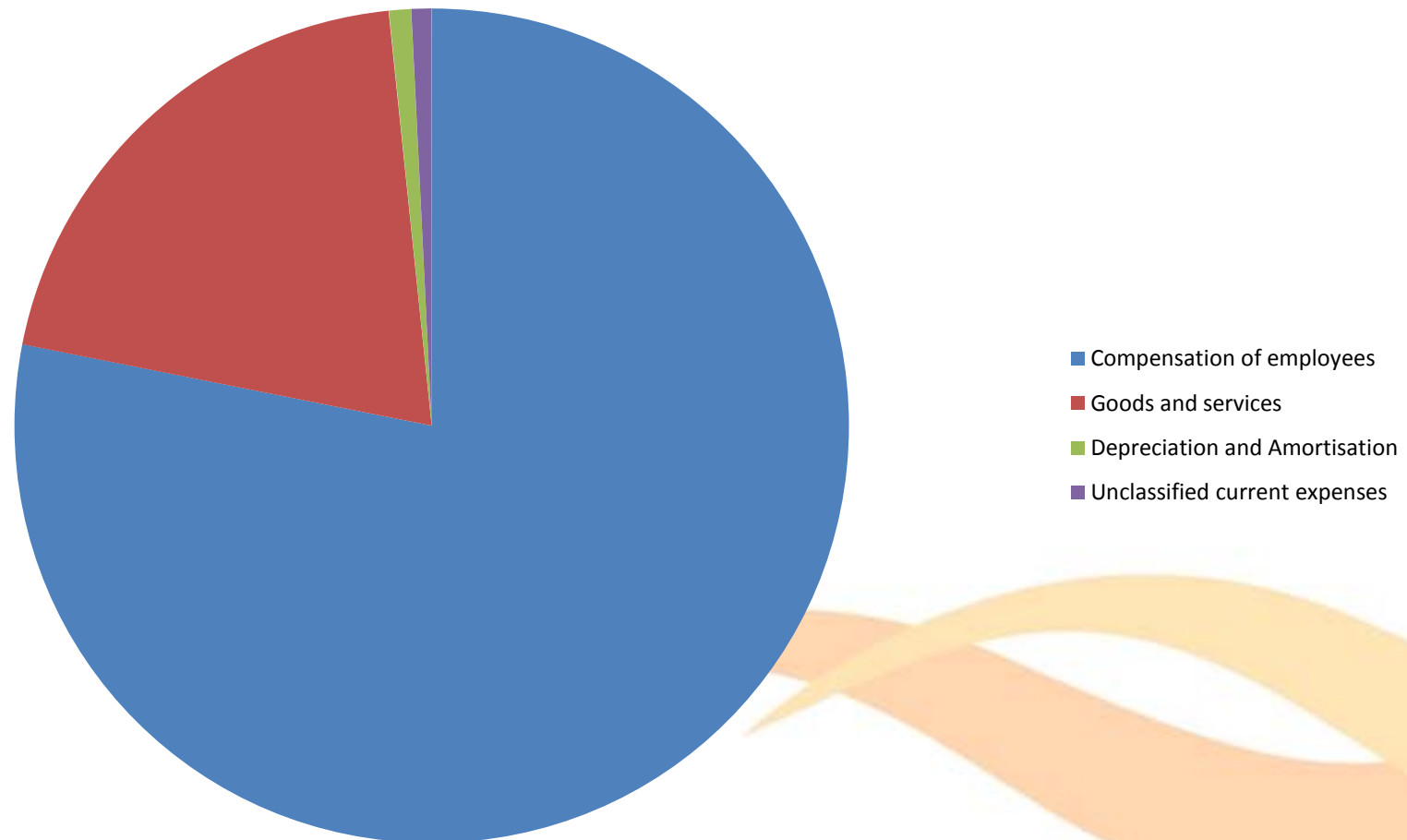
Financial Overview: Expenditure

Expenditure makeup for YTD Quarter 1 (July 2014)

Employee cost – 78%

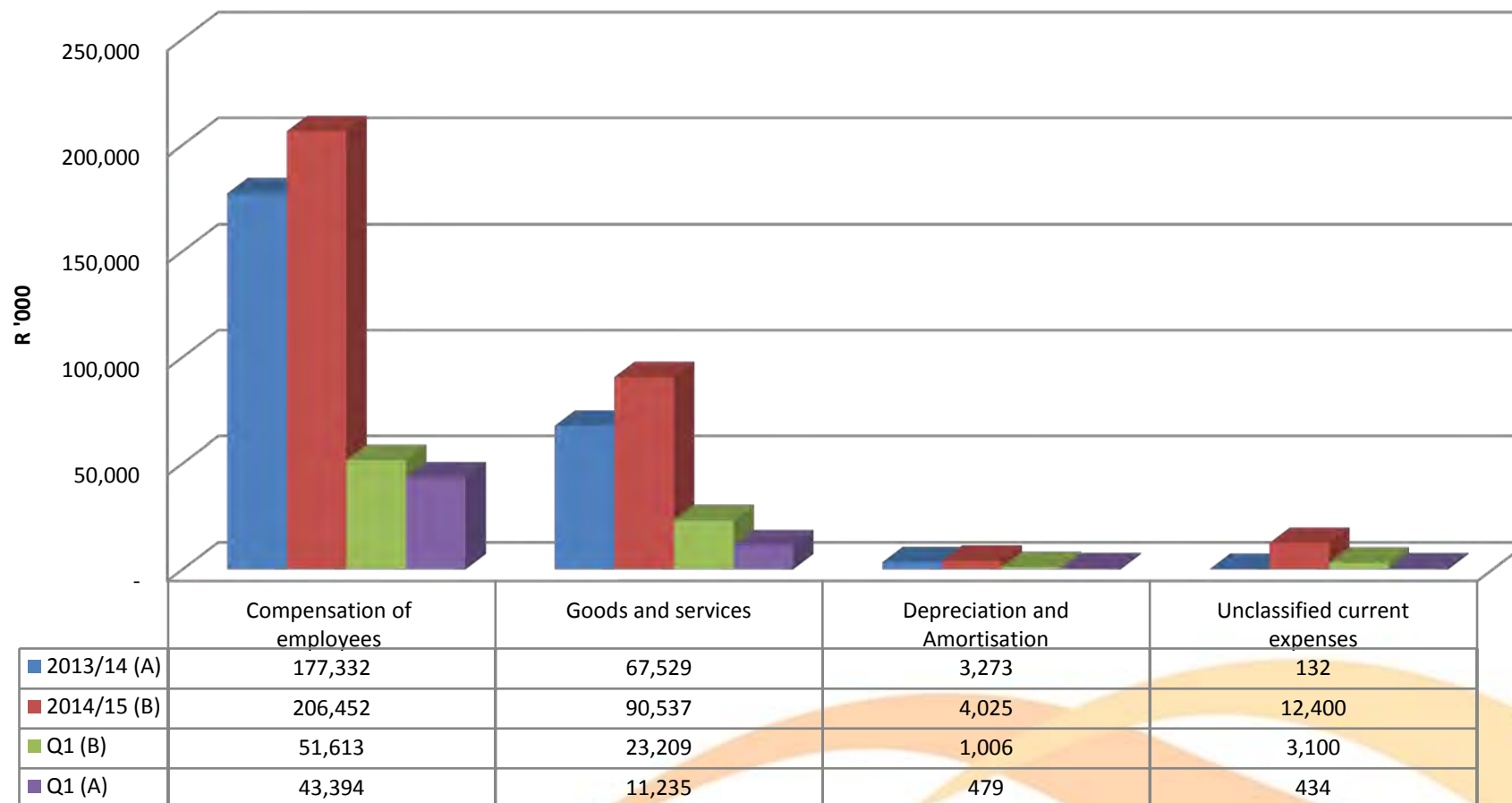
Goods and services – 20%

Other expenses and Depreciation – 2%



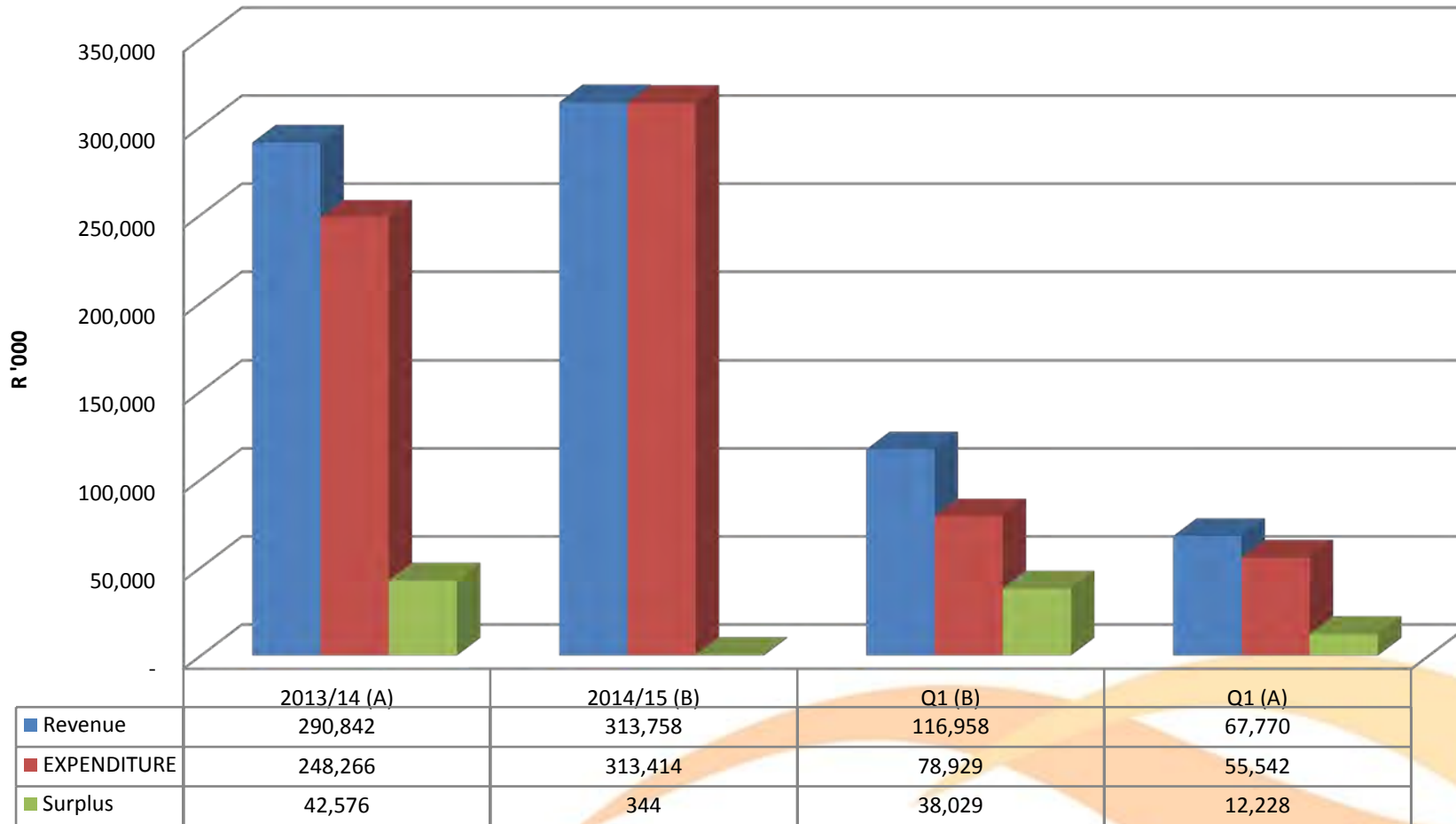
Financial Overview: Expenditure

Expenditure for Q1 compared to budget and actual



Financial Overview: Income vs. Expenditure

Income against expenditure for the year to date





Challenges



Organisational Challenges

External challenges faced by NRCS include:

- Inadequate testing facilities in South Africa for some regulated products e.g Motor cycle helmets
- Lack of qualified staff and the inability to recruit required specialist resources Capacity constraints: Evaluator capacity in Electro-technical approvals continues to be a major concern.
- The application and regulation of products covered under VCs that are outdated.
- High transportation and storage costs for confiscated goods

Current challenges faced by NRCS include:

- Organisational maturity as NRCS is still in infancy stage
- Generation of revenue reliant on trends and markets
- Internal control weaknesses including procurement, asset management and HR
- Labour relations and a range of staff and HR issues



The end

