

# Presentation to the Portfolio Committee on Trade and Industry on the NRCS Second Quarter Performance Report for the 2017-2018 Financial Year

**31 October 2017**

**Mr Edward Mamadise  
Acting Chief Executive Officer**

# NRCS representation

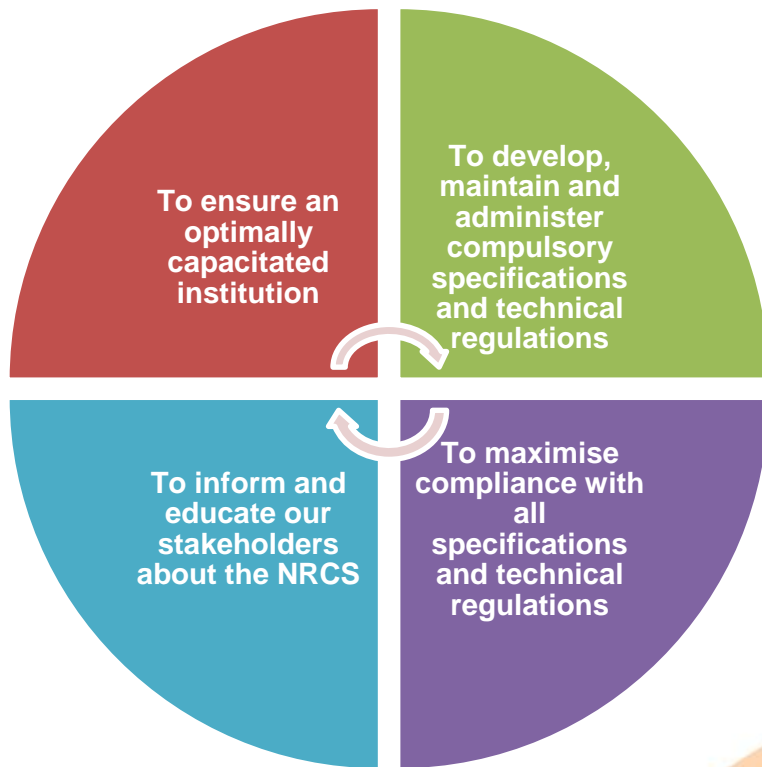
- ❑ Mr. Edward Mamadise (Acting Chief Executive Officer)
  - ❑ Rahimoonisha (Mimi) Abdool (CFO)
  - ❑ Meisie Katz (General Manager Foods)
  - ❑ Duncan Mutengwe (General Manager Automotive)
  - ❑ Edward Matemba (Manager Strategy and Risk)
  - ❑ Bongani Khanyile (General Manager Electro-technical)
  - ❑ Donovan Cicero (Acting General Manager CMM)
  - ❑ Thomas Madzivhe (General Manager Legal Metrology)
  - ❑ Tsakani Dumezulu (Acting CIO)

# Scope of Presentation

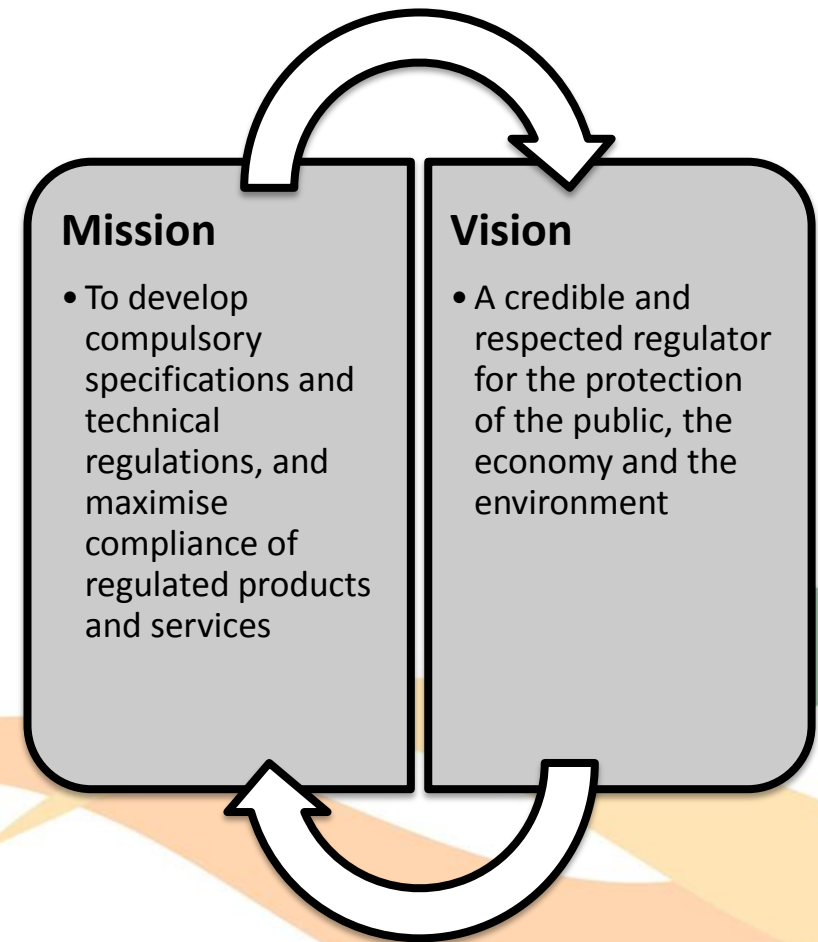
- ❑ Strategic Overview of the NRCS
  - ❑ Strategic Goals, Mission, Vision
  - ❑ Legislative mandate
  - ❑ Regulated industries
  
- ❑ Highlights
  
- ❑ Performance against Targets
  - ❑ Non-Financial Performance
  - ❑ Financial Performance
  - ❑ Revenue Qualification
  
- ❑ ICT Progress
  
- ❑ Challenges

# 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)**

**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)**

# Industries regulated by NRCS

<b>Industry Sector</b>	<b>Product regulated / Service rendered</b>
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	Measurable products and services, measurements in trade, health, safety and the environment, any measuring instrument used for a prescribed purpose and gaming equipment
Building Regulations	Ensure uniform interpretation of National Building Regulations and Standards Act, administer review Board

National regulator for  
compulsory specifications



## Highlights



# Key highlights

- ❑ NRCS inspected 6 418 fishery and associated product consignments and facilities
- ❑ The NRCS conducted a further 6 084 inspections for automotive, electro-technical, chemicals, materials and legal metrology related products.

Industry	Quarter 2
Automotive	1 309
Chemicals, Materials and Mechanicals	1 854
Electro-technical	1 295
Legal Metrology	1 626
<b>Total</b>	<b>6 084</b>



# Key highlights

- ❑ Non- Compliant Products worth R106,5 million were found on the market
  - ❑ Electro-technical - products included CFL's, luminaires, incandescent lamps, adaptors, switches, lamp holders, Christmas lights and tumble dryers. The estimated monetary value of these products is R 6,8 million
  - ❑ Foods and Associated Industries - products that tested positive for the pathogenic *Vibrio* spp and these products were imported from India, Vietnam, Ecuador, China, Panama, Argentina and Indonesia. The estimated monetary value of these products is R 11,8 million
  - ❑ CMM -Safety Footwear, Non Pressure Paraffin stoves, Plastic Carrier and Flat bags and Swimming Aids. Value R2million
  - ❑ Automotive – motorcycle helmets, tyres, incandescent lamps, child restraints, headlights and brake fluid. Value R2,6 million.

# Key highlights

## ❑ Legal Metrology

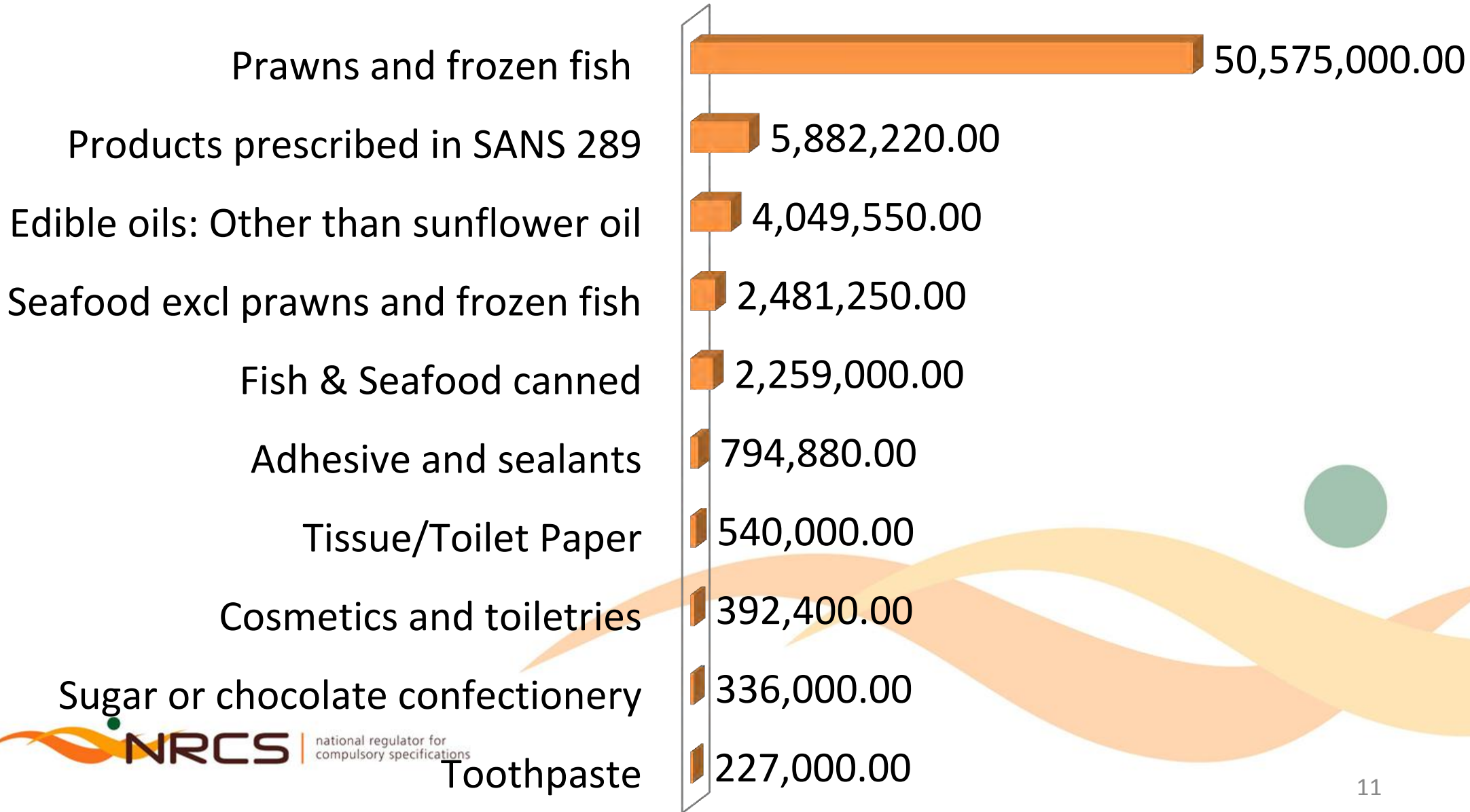
❑ Legal Metrology - R83,5 million worth of products were found to be non-compliant.

❑ As a result of an inspection deferred to Legal Metrology (LM) unit via a screening exercise by the Food and Associated Industry (FAI) unit, 3000 units of squid tentacles, imported by a Packer based in Atlantis, were found short mass. The importer is in the process of taking corrective action.

❑ The following is a breakdown of the top 10 commodities found to be non-compliant.

# Key highlights

## LM - VALUE OF NON-COMPLIANT PRODUCTS TESTED



## Actual Performance Against set targets (Non-Financial performance)

# Strategic Goal 1: To develop, maintain and administer compulsory specifications and technical regulations

## □ NBR

- No cases were heard during the Quarter

## □ Compulsory Specifications (VCs) published by the dti:

- Compulsory Specification for electric cables with extruded solid dielectric insulation for fixed installations (300/500 v to 1 900/3 300 v) electrical and electronic apparatus (VC 8075) on the 18th August 2017.

## □ VC Submission Approved by the CEO:

- One amended VC, VC 8014 (canned fish), submitted to the dti for first gazetting
- VC 8054 submission for final gazetting

# Strategic Goal 1: To develop, maintain and administer compulsory specifications and technical regulations

- ❑ VC and Technical Regulations Projects approved by PAC (Project Approval Committee):
  - Project Proposal for amendment VC 9085, Cement
  - Project Proposal for amendment for compulsory specification for treatment of Timber
  - Proposed development of a compulsory specification for Laundry processes and management
  - Closure of the new Compulsory Specification for processed meat project (VC 9100) approved by PAC and NRCS TC.
  - Project proposal for VC 8036, compulsory specification for circuit-breakers.
  - Periodic Review report for the Compulsory Specification for Live Aquacultured abalone (VC 9001),

## Strategic Goal 2: To maximise compliance with all specifications and technical regulations: Automotive

- ❑ NRCS inspected 6 084 inspections fishery and associated product consignments and facilities
- ❑ The NRCS in Quarter 2 conducted 6 084 inspections against a target of 5452 for automotive, electro-technical, chemicals, materials and legal metrology related products.
  - Cumulative reporting – 11 204 inspections conducted against a target of 10814
- ❑ Inspected 100% of all declared consignments and productions of canned fishery and meat products. Total Inspections for the first 6 months total - 12 353, Q1 – 6 463 & Q2 – 5 890



## Strategic Goal 2: To maximise compliance with all specifications and technical regulations: Automotive

- ❑ 1 050 inspections conducted on locally produced Frozen products and fishery and canned meat processing factories and vessels against a target of 1110 for the first half of the year.
- ❑ 84% (409 out of 487 ) of all gaming approval applications processed within 30 calendar days
- ❑ 76% (6 243 out of 8 197) of all approval (LOAs for Electro-technical, CMM, Automotive and Type Approval for measuring instruments) applications processed within 120 calendar days



# SG 3: To inform and educate our stakeholders about the NRCS

## ☐ Consumer awareness programs

- 16 awareness sessions were held in:
  - Mpumalanga,
  - KwaZulu Natal,
  - North West,
  - Limpopo and
  - Northern Cape

(Q3)

# Strategic Goal 4: To ensure an optimally capacitated institution

## □ Recruitment

- NRCS had a staff complement of 296 employees at the end of the quarter, 295 permanent and one contractor.
- Total number of funded positions in the structure is 329.
- 2 new permanent appointments were made and there were six (6) terminations within the organisation.
- At the end of the second quarter the NRCS had thirty-three (33) budgeted vacancies which represents a 10,3% vacancy rate within the NRCS.

# Strategic Goal 4: To ensure an optimally capacitated institution

## ❑ Three new positions were created.

- Chief Audit Executive, Chief Information Officer and Project Manager: ICT Modernisation (P6). The CIO position has replaced the position of Senior Manager: IT which was vacant.

## ❑ Staff Development and Training

- 16 Bursary Applicants were awarded bursaries
- The NRCS trained 139 employees during the first quarter.

## ❑ Labour Relations Matters

There were three grievances during the second quarter.

## Audit Findings Matrix

# Audit Findings Matrix

## Audit findings

Complete	16
WIP	24
Disagree	0
Not resolved	0 <small>(Q3)</small>
<b>40</b>	

## Action plans

Completed	19
WIP	26
Not started	0
Changed	0
No response	0
<b>45</b>	

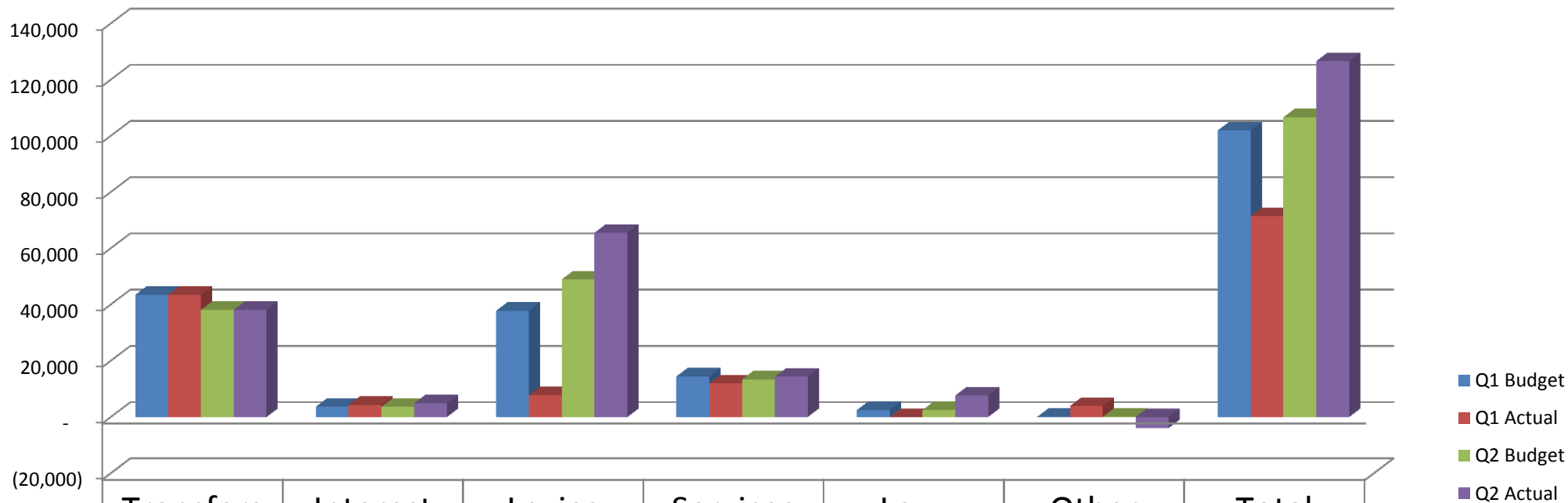
## Financial Performance

## Q2 2017-2018: Statement of Financial Performance Summary as at 30 September 2017

Income statement	Q1		Q2		Full year Budget
	Budget	Actual	Budget	Actual	
Transfers from the dti	43,452	43,452	81,539	81,539	128,245
Interest Income	3,625	4,333	7,250	9,236	14,500
Levies from Compulsory Specs	37,794	7,786	86,718	73,309	173,436
Services	14,479	11,918	27,887	26,281	54,596
Lewy Audits	2,500	-	5,000	7,668	12,500
Other Income	95	3,967	190	33	22,628
<b>Total Income</b>	<b>101,945</b>	<b>71,457</b>	<b>208,583</b>	<b>198,067</b>	<b>405,905</b>
Compensation of Employees	73,187	67,945	147,184	138,362	298,643
Goods and Services	24,294	9,228	51,633	31,623	104,583
<b>Total Expenditure</b>	<b>97,480</b>	<b>77,173</b>	<b>198,817</b>	<b>169,985</b>	<b>403,226</b>
<b>Surplus / (Deficit)</b>	<b>4,464</b>	<b>(5,716)</b>	<b>9,766</b>	<b>28,082</b>	<b>2,679</b>

# Q2 2017- 2018 Financial Overview: Revenue

Revenue per quarter 2017/2018

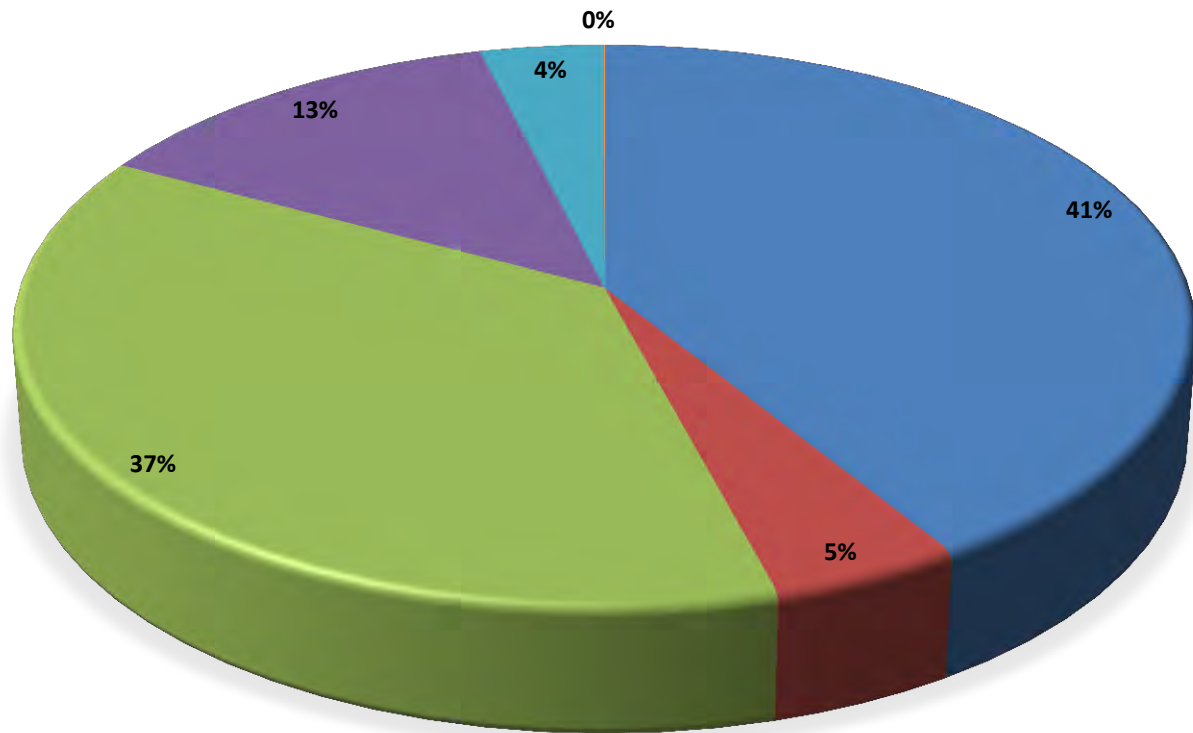


	Transfers from the dti	Interest Income	Levies from Compulsory Specs	Services	Levy Audits	Other Income	Total Income
Q1 Budget	43,452	3,625	37,794	14,479	2,500	95	101,945
Q1 Actual	43,452	4,333	7,786	11,918	-	3,967	71,457
Q2 Budget	38,087	3,625	48,924	13,408	2,500	95	106,639
Q2 Actual	38,087	4,903	65,524	14,363	7,668	(3,934)	126,610



# Q2 2017-2018 Financial Overview: Revenue

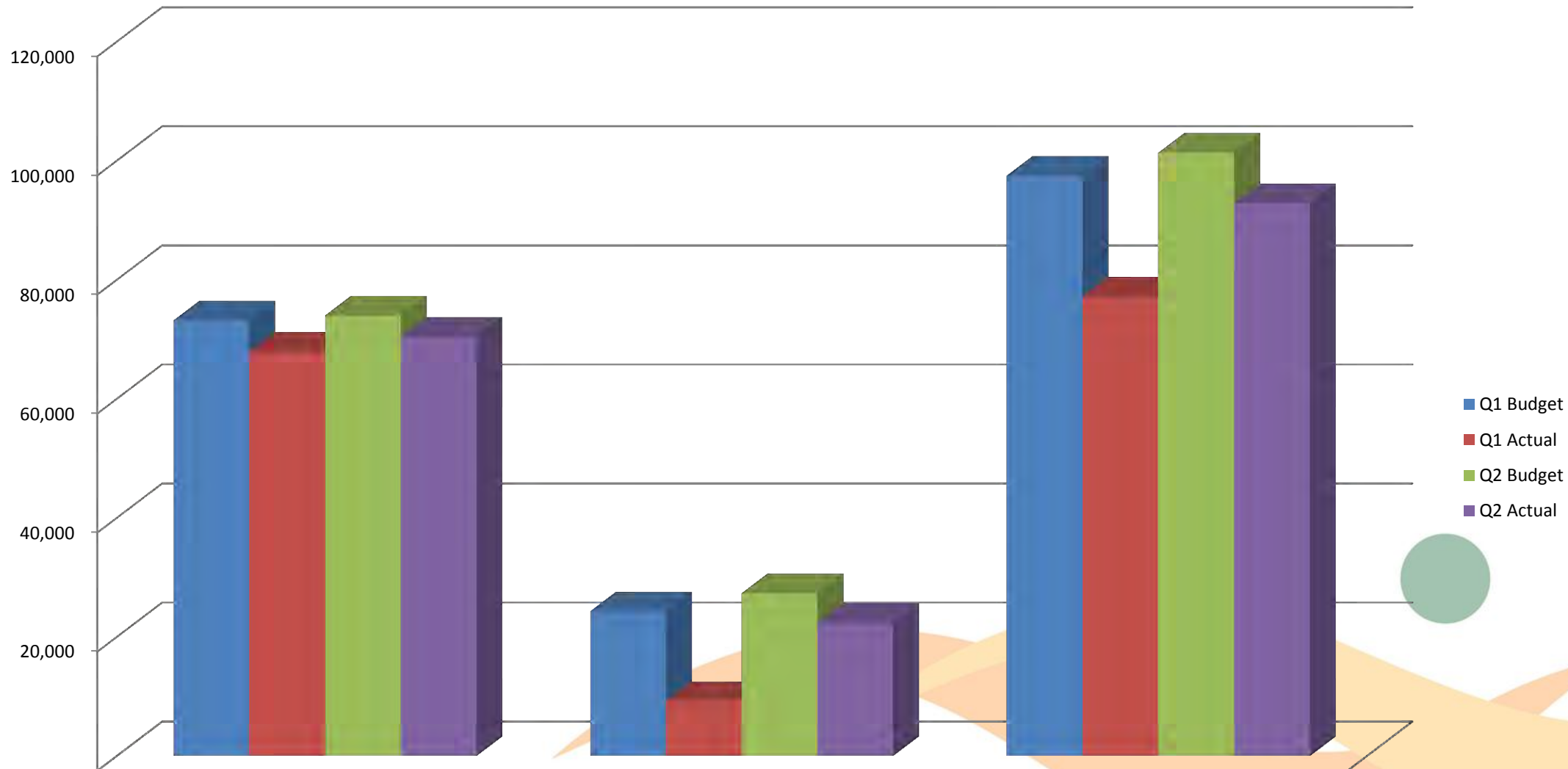
COMPOSITION OF REVENUE YEAR-TO-DATE Q2



- Transfers from the dti
- Interest Income
- Levies from Compulsory Specs
- Services
- Levy Audits
- Other Income

# Q2 2017-2018 Financial Overview: Expenditure

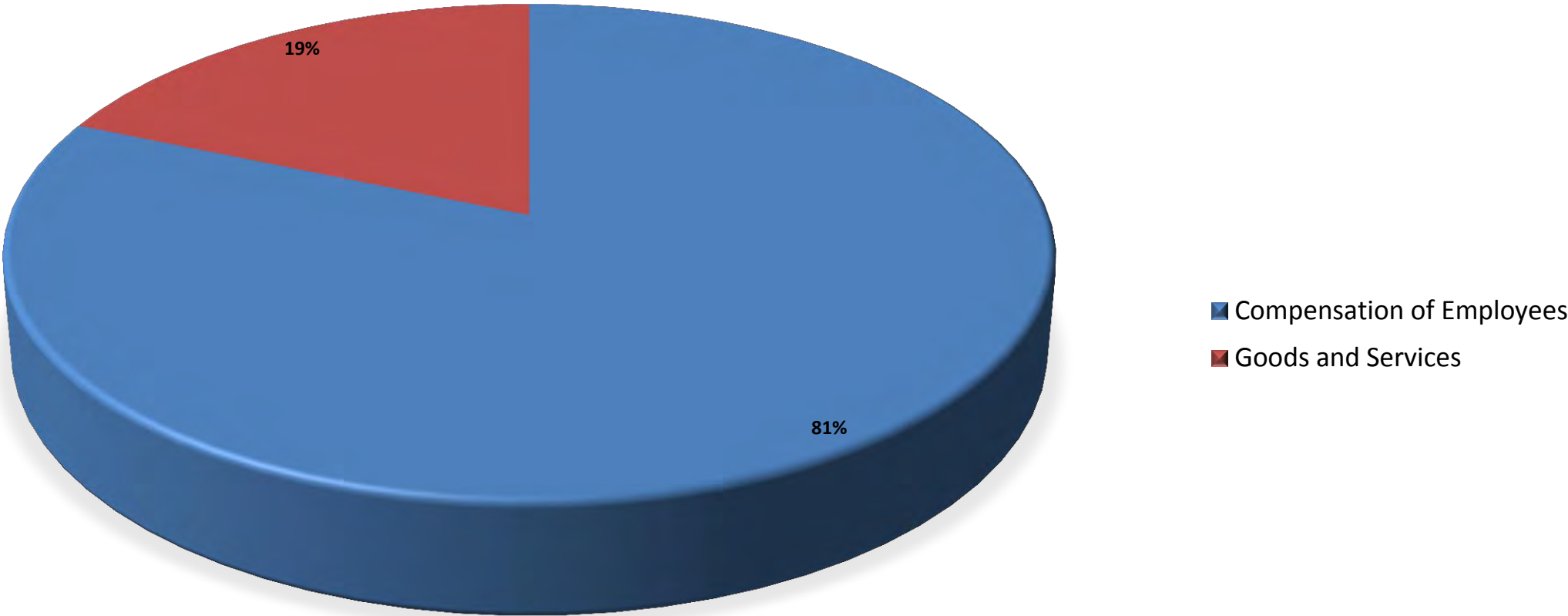
## Expenses per quarter 2017/2018



	Compensation of Employees	Goods and Services	Total Expenditure
Q1 Budget	73,187	24,294	97,480
Q1 Actual	67,945	9,228	77,173
Q2 Budget	73,998	27,339	101,337
Q2 Actual	70,417	22,395	92,812

# Q2 2017-2018 Financial Overview: Expenditure

COMPOSITION OF EXPENSES YEAR-TO-DATE Q2



# Q2 2017- 2018 Performance versus Targets

STRATEGIC GOALS		
Output	Activities	Status
<i>Increased Revenue</i>	NRCS Funding Model	WIP - Feedback from AML: to ensure that ToR includes the work study analysis that will enable the proper costing per Compulsory Specification as agreed. I am of the view that you can proceed in the interim on the basis suggested by Edward by calculating the known costs against the known pool of levy payers.
<i>Eliminate Audit Qualification</i>	Implement and maintain the NRCS Revenue Plan	Made proposals to the AGSA; awaiting AGSA feedback
<i>Integrated Systems</i>	Support ICT in the implementation of the ERP	WIP - at SCM Stage
	Support ICT in the implementation of the e-Form and e-Portal Systems	
<i>Improved Governance</i>	Monthly Staff Meetings	Achieved
	Timely response to AG queries	Achieved
<i>Improved People Capacity</i>	Training and Development of staff in line with PDP	HR has implemented training programmes in line with CDP plans
	Completed Performance Appraisals	WIP
	Completed Performance Agreements	Achieved
<i>Levy Audits</i>	Levy Audits conducted in line with Plan	Achieved
	Additional Revenue generated	Achieved 61% of Budget in Q2: Cell C R3,0 mIn; MTN R3,5mIn.. Finalising Telkom R1.0 mIn

# AGSA Risk Management as at 31 March 2017



# ICT Progress and Challenges

# Project Overview

- The Modernization Project is a suite of interdependent strategies that the NRCS plans to deploy to deal with organisational challenges
- **Purpose**
  - Revenue qualification.
  - Automation of NRCS operational processes which include collaboration with other key Stakeholders i.e SARS and Customs
  - Automation of the NRCS approval system - LOA issuance
  - Implementation of Internal support systems - ERP

# Modernisation in Nutshell.

- Modernization program covers the upgrade, integration or replacement of legacy applications, digitising way of doing things, driven by factors such as rising costs and a need for organizational agility.





# Project Current Status

- ❑ Specification for modernisation project for the purpose of RFI (request for information) was finalized and advertised in March And closed on 18 April 2017 and 9 responses were received.
- ❑ Task team has analyzed the RFI responses and concluded that ERP (Payroll, HR, Finance) system will be procured off the shelve; evaluation and inspection will be developed in-house.
- ❑ In the process of appointing a Service Provider to assist with business processes improvements and mapping, change management and specifications for Modernisation project ERP and Inspector Mobility System. Expected date of appointment end February 2018.
- ❑ CIPC CIO- was recommended by **the dti** to assist the task team based on CIPC modernization experience.
- ❑ NRCS is in the process of appointing a CIO and a dedicated project Manager to drive the modernization project.

# Current ICT Systems

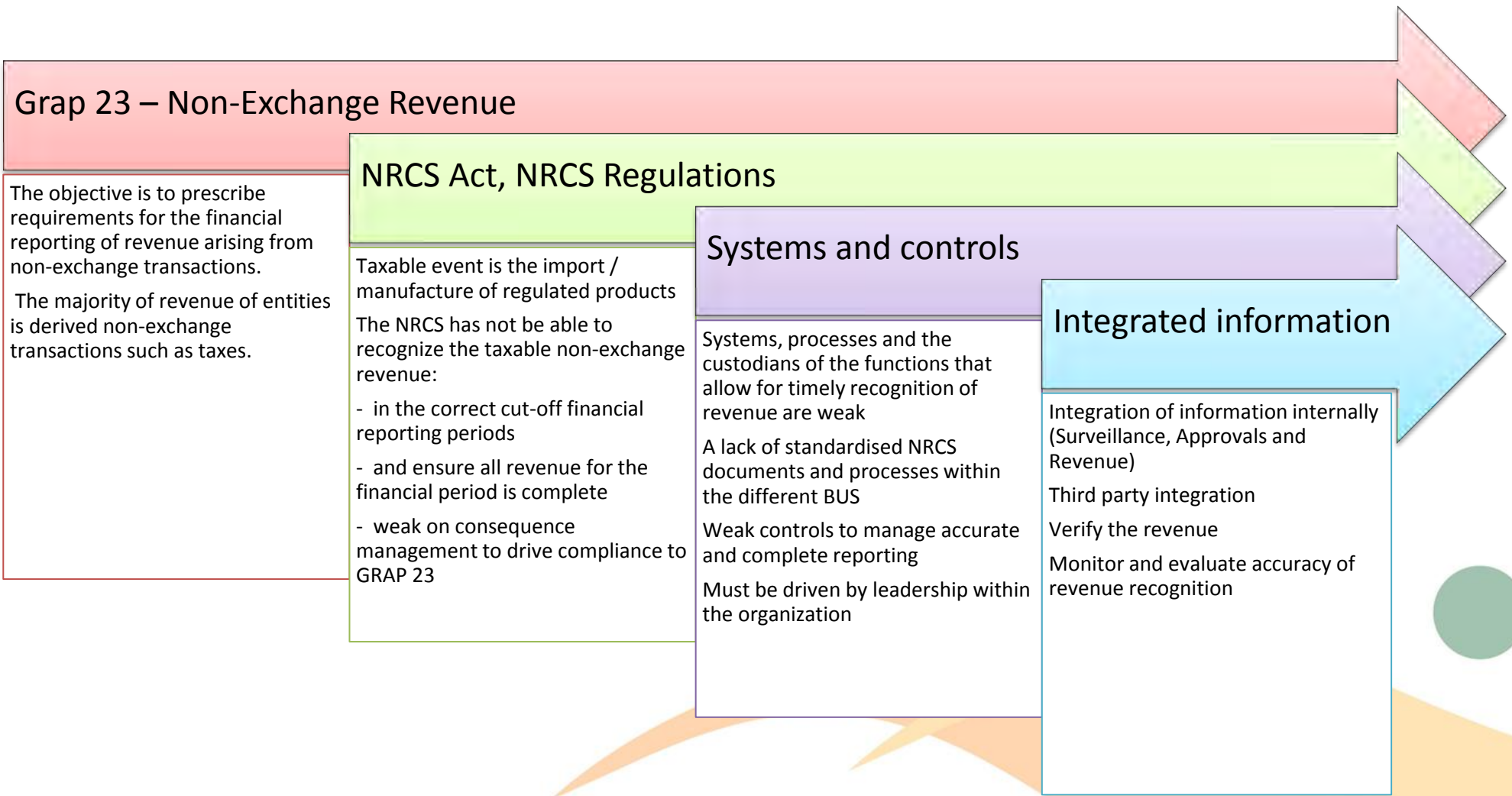
- **JDE Edwards** – ERP systems with only financial and SCM module working. This system is currently out of support from Oracle (the owners of the systems)- it needs to be changed to new systems.
- **Siebel CRM** – the system was procured to automate the approval and inspection processes, to this stage only Electro technical clients use the system for LOA application but internally the application is processed outside the system because the CRM is not user friendly and not all required capabilities are configured on CRM.

## Revenue Qualification

# Revenue Qualification

- CFO met with AGSA Senior Manager in May 2017 and made proposals to address the qualification. AGSA was open to discussions and committed to mid-August 2017 to consider the proposals
- In August 2017, CFO and FM met with AGSA and submitted a proposal for consideration. AGSA to engage with their Technical Department and revert.
- Feedback from AGSA: matter is still pending
- Internal Control: Finance to separate the January to March levy calculations to account for the 3 months as prior year levy declarations
- AGSA addressed EXCO on 24 October 2017, one BU has implemented completeness of revenue controls: Inspectors follow up on Levy Declarations when they visit customers
- Internal controls are to rolled out to all BUs
- All affected staff are to made aware of the processes and controls
- All data from 1<sup>st</sup> April 2017 until 30 September 2017 must be verified to account for revenue relating to cut-off and completeness of revenue

# Revenue Qualification



# Revenue Qualification Plan

## Legislative options

### Legal opinion re: NRCS Act

- Amendment to the Act, or
- Engage the dti on the NRCS Act

### LOA Conditionality

- Quarterly volumes forecast
- Introduce LOA validity period

## Internal control improvements

### NRCS Modernisation

- ERP system implement-ation
- Business process re-design

### SARS Collaboration

- Information sharing and system integration

# Revenue Qualification Plan: Progress

Plan	Progress to date
<p>Legal opinion re: NRCS Act</p> <ul style="list-style-type: none"><li>• To determine if the NRCS Act needs to be amended</li></ul>	<ul style="list-style-type: none"><li>• Legal opinion obtained</li><li>• Discussion pending with the dti</li></ul>
<p>LOA Conditionality</p> <ul style="list-style-type: none"><li>• Quarterly volumes forecast</li><li>• Introduce LOA validity period</li></ul>	<ul style="list-style-type: none"><li>• In the process of investigating mechanisms to operationalise</li></ul>
<p>NRCS Modernisation</p> <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>• Modernisation concept has been developed.</li><li>• To be tabled to ICT Steering Committee for guidance on implementation strategy</li><li>• Business process redesign is dependent on the modernisation approval</li></ul>
<p>SARS Collaboration</p> <ul style="list-style-type: none"><li>• Information sharing and system integration</li></ul>	<ul style="list-style-type: none"><li>• Code alignment project with SARS is in implementation phase.</li></ul>

# Challenges



# Key challenges

## Operational challenges

- High transportation and storage costs for confiscated goods.
- Long turnaround times and capacity constraints at the test houses compromises the effectiveness of the Regulator

## Border enforcement challenges:

- Inadequate information supplied on the bill of entry and shipping manifests
- High number of abandoned goods at Ports of Entry which results in high transportation and storage costs after confiscation.

## Revenue challenges

- Collection dependent on the industry co-operation
- Declining economic activity impacting revenue collection
- Audit Qualification

# Abbreviations and Acronyms

- ❑ AG – Auditor General
- ❑ CMM – Chemicals, Materials and Mechanical
- ❑ DAFF – Department of Agriculture, Forestry and fisheries
- ❑ FY – Financial year
- ❑ 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

# Thank You