Tuesday, 23 June 2020]

No 79—2020] SECOND SESSION, SIXTH PARLIAMENT

PARLIAMENT

OF THE

REPUBLIC OF SOUTH AFRICA

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

TUESDAY, 23 JUNE 2020

TABLE OF CONTENTS

National Assembly

ANNOUNCEMENTS

National Assembly and National Council of Provinces

The Speaker and the Chairperson

1. Assent by President in respect of Bills

(1) **Division of Revenue Bill** [B 3 – 2020] – Act No 4 of 2020 (assented to and signed by President on 22 June 2020).
(Umthetho Wokwahlulwa-hlulwa Kwengeniso (isiXhosa)).

(2) **Appropriation Bill** [B 4 – 2020] – Act No 7 of 2020 (assented to and signed by President on 22 June 2020).
(Molao wa Tekanyetso (Setswana)).

National Assembly

The Speaker

1. Membership of Committees

(1) The following members have been nominated by their parties to serve on the ***Ad Hoc Committee on the appointment of the Auditor-General:***

African National Congress

Buthelezi, Mr NS
Dlakude, Ms DE
Morolong, Mr IK
Peters, Ms ED
Somyo, Mr SS
Tolashe, Ms NG

Democratic Alliance

De Villiers, Mr JN
Spies, Ms ERJ

Economic Freedom Fighters

Mente, Ms NV

Inkatha Freedom Party

Singh, Mr N

Freedom Front Plus

Wessels, Mr WW

TABLINGS

National Assembly and National Council of Provinces

1. The Speaker and the Chairperson

(a) The 2021/22 Draft Annual Performance Plan and Budget for Parliament.

The document is available on Parliament's website: www.parliament.gov.za

---

COMMITTEE REPORTS

National Assembly

1. Report of the Portfolio Committee on Trade and Industry on its oversight visit to the Western Cape on 11 February 2020, dated 19 June 2020

The Portfolio Committee on Trade and Industry having visited two projects funded by the Industrial Development Corporation (IDC), namely the Cape Town Film Studios and the Noodle Factory, and a project funded by the National Empowerment Fund (NEF), namely RISE Apparel/Uniforms (Phakamile Industries), in the Western Cape reports as follows:

1. Introduction

In terms of section 42(3) of the Constitution of the Republic of South Africa, 1996, the National Assembly, among others, scrutinises and oversees Executive action. The National Assembly through the Portfolio Committee on Trade and Industry oversees the work of the Departments of Trade and Industry (DTI) and of Economic Development (EDD), as well as their entities, to ensure that national priorities such as the creation of decent employment are met.

The IDC and the NEF are development finance institutions within the EDD and the DTI respectively. The IDC is mandated to finance projects that will contribute to industrial development, while the NEF's mandate is to finance projects that will contribute to economic transformation and is not limited to manufacturing projects.

1.1 Purpose of the visit

Oversight visits provide the Committee with the opportunity to determine whether reporting by the Departments and their entities are a true reflection of its reported service delivery. The purpose of the Committee's visit on 11 February 2020 was to see projects funded by the IDC and the NEF and to engage with the beneficiaries regarding the impact of the entities' funding, involvement and any challenges facing the beneficiaries to operate and compete effectively.

The Committee identified two projects funded by the IDC and one funded by the NEF based on their proximity to each other and the type of facility. The three projects were the Cape

Town Film Studios; Rise Apparel/Uniforms (Phakamile Industries), a clothing manufacturing company; and the Noodle Factory, an agro-processing company.

1.2 Delegation

The following Members of Parliament participated in the oversight:

- Mr M Cuthbert (Democratic Alliance),
- Ms J Hermans (African National Congress (ANC)),
- Ms P Mantashe (ANC),
- Mr S Mbuyane (ANC),
- Ms R Moatshe (ANC),
- Ms N Motaung (ANC),
- Mr F Mulder (Freedom Front Plus),
- Mr D Nkosi (ANC) (Chairperson),
- Mr W Thring (African Christian Democratic Party), and
- Ms Y Yako (Economic Freedom Fighters)

The Committee was supported by the following members of staff:

- Ms Z Madalane, Researcher,
- Mr T Madima, Committee Secretary,
- Ms Y Manakaza, Committee Assistant, and
- Ms M Sheldon, Content Advisor.

1.3 Purpose of the report

This report captures the substantive discussions the Committee had during the oversight visit. The Committee Secretaries can be contacted for access to the detailed presentations from various stakeholders.

2. Cape Town Film Studios

2.1. Overview

The Cape Town Film Studios (hereafter referred to as "the Film Studios") was selected as a signatory project for the IDC's 75th anniversary. The Studios is also regarded as the most successful film studio in the developing world. It offers a world-class, custom-built, Hollywood style, film studio complex with state-of-the-art facilities, such as its five sound stages, workshops, backlot sets, and deep-sea and beach tanks, and supporting services. The Studios informed the Committee that it had hosted about 42 productions with an economic impact of about R15 billion since inception and had created approximately 88 000 full-time equivalent jobs during its first eight years of operation.

Furthermore, they informed the Committee that there was a significant increase in the number of jobs created and the Gross Domestic Product contribution when a film moves from a location-based project to a studio-based project. This was due to the increased length of production time spent in the studio compared to a location; the increased spend on production costs including indirect spending on accommodation, travel, tourism, etc.; increased number of direct and indirect jobs.

The Film Studios has been funded and supported through a successful public-private partnership which includes the DTI, the IDC, Wesgro and the City of Cape Town. The IDC had invested about R70 million in the studios in 2010 and then a further R14 million for the construction of the water tank facility.

2.2. Matters arising

In spite of the success of the Film Studios, a number of concerns had been raised during the visit which are captured below:

2.2.1. Capacity of the industry

The Studios management and other stakeholders in the industry informed the Committee that there was an increased demand for content such as live streaming entertainment, from companies such as Netflix and Amazon Prime, which is disrupting the way the industry has been functioning. As a result, the global capacity of film studios was unable to effectively service all planned productions. They noted that currently, the Film Studios had to forego productions due to a lack of physical capacity. The unintended consequence for South Africa's film industry is that while other countries' industries are growing exponentially, South Africa's growth has been minimal. This was placing the ability of production service providers at risk of securing follow-up work if they were unable to source additional studio

capacity for particularly larger productions. It was also noted that South Africa has the potential to increase the number of film studios.

2.2.2. Support for local productions

Wesgro informed the Committee that a number of local productions had been hosted by the Film Studios, such as *The Long walk to Freedom*. Smaller, local productions were being accommodated at the studios in between the bigger productions and were charged lower rates. However, the Film Studios expressed a concern that the absence of programmes that would encourage, develop and nurture local stories/content into films is impeding the development of the local film industry.

2.2.3. Skills development and transfers

The Film Studios requires a number of skills to support a production. These include technical film-making and post-production skills, such as sound engineering, camera operation, animation, special effects and editing; wardrobe and prop production; and set development, including set design, construction, etc. The Film Studios has used locals and in the process transferred the necessary skills to them, thereby growing the local skills set for the film industry. The skills development is mainly focused on the pre-production phase when the set and wardrobes need to be prepared before shooting commence. This process also provides these individuals with opportunities to establish businesses within carpentry, construction etc. Furthermore, it also provides opportunities to use local service providers for catering and transport.

Wesgro emphasised that the nature of most jobs in the industry were dependent on productions for a specific period. During the downtime period individual are being further trained. Wesgro noted that remuneration of the workforce is substantial which buffers them during the downtime.

2.2.4. Film and Television Incentives

One of the issues inhibiting the attraction of productions is the current Film and Television (TV) Incentive. Incentives are used globally to compete for film and TV productions. The current cap on the incentive is R50 million, which is not competitive compared to incentives being offered in other jurisdictions and given the budget of these international productions. The incentive is also structured for film production. However, the industry has moved onto the “Age of TV”. This requires the ability to compete for series that can have more than one

season. This can result in recurring work for the industry but requires the industry to work harder to maintain that relationship. Some of the TV series' budgets are around US$90 million and the incentive translates to about US$3,5 million, which is about 3,9% of the total budget. Production companies have approached the DTI to raise the cap to R100 million in special cases where the magnitude of the budget warrants this; thus being able to secure the high budget productions. However, it is unclear when and on what basis this can be done.

While South Africa has a number of factors that play in its favour within the sector, the incentive should be effectively used to raise its competitiveness, as South Africa's location is not necessarily convenient. Currently, the domestic industry's market share was about 1% of the number of global productions, while tourism had a share of 3%. They were of the view that the market share should at least match that of tourism. The industry proposed that the incentive cap be increased or that the incentive be converted into a tax rebate to make the industry a little more competitive.

Furthermore, the DTI excludes pilots for TV series from the incentive programme, as these are considered to be speculative. However, the industry argued that these pilots spend as much as a film does and it is irrelevant to the production companies whether this is only for one episode of a series that may not continue. The likelihood is that when you shoot a successful pilot at a particular location, the TV series will continue there. They noted that on average three out of ten pilots are selected for full production in Hollywood. The industry was of the view that the incentive should be granted on a value basis rather than on the type of production, which should create an environment to grow the domestic industry.

The industry acknowledged that the incentive programme is driving transformation within the industry. However, the sustainability of this is dependent on the ability of the industry to grow its market share. Therefore, the incentive should be crafted in a manner to stimulate this growth.

2.2.5. Impact of changes to the Copyright legislation

Wesgro noted that the film and TV industry is a risky business, as there is a large upfront investment made without certainty that the production will be successful. The industry will therefore tend to invest in locations that mitigate its risks. Consequently, it considers the financial and tax systems, as well as the laws protecting copyright, among others. Currently, certain provisions of the Copyright Amendment Bill creates some uncertainty for industry

players. There was an opinion that the Bill does not align with the way copyright legislation is drafted globally. The Bill attempts to create a new model for certain aspects of copyright that have a number of pre-existing models that work well elsewhere; such as artists' rights under the French model or shared responsibility under the Canadian model. This is not to say that South Africa should not explore new models. The fear is that this uncertainty with the new legislation will increase the risk for locating productions in South Africa and drive away investment.

3. Visit to RISE Apparel/Uniforms

3.1. Overview

RISE Apparel/Uniforms is a clothing manufacturing company based in Philippi, Cape Town. It is 100% black, female owned and managed. It offers functional clothing such as uniforms, corporate wear and protective clothing under the RISE Uniforms brand. RISE Uniforms started trading informally in 2007, and only formally registered in 2010. It reported that it had 52 employees, of which 81% were black females.

It had approached the NEF in 2017 for funding of R5 million for the purpose of purchasing equipment necessary to expand its clothing manufacturing business. This funding was necessitated due to the company securing a contract from Pick n Pay under its Enterprise and Supplier Development Programme[1]. This was done in partnership with the Western Cape Department of Economic Development and Tourism with a 60:40 split to reduce the cost of capital to entrepreneurs in the province.

Currently, Pick n Pay and Boxer are its main clients to whom uniforms are supplied in bulk.

3.2. Matters arising

The following matters were raised by Rise Uniform:

3.2.1. Ease of accessing finance

The owner shared her experience when trying to expand her business. Initially, the business had been manufacturing school and other uniforms on a small-scale before it was awarded a

[1] This Programme aims to develop, mentor, and provide support to small-scale suppliers while securing its own value chain.

tender by Pick n Pay for uniforms. The tender meant that the business was operating at full capacity and could not take on any other clients. In spite of the growth in turnover and employment, commercial banks and even government mainly deemed her business too risky to invest in it, as it only had one client. However, the unwillingness to invest meant that her business could not expand its client base to reduce its risk. She was of the view that this attitude towards small enterprises was an impediment to their growth and may disincentivise them from growing their market share with larger corporates.

Fortunately, the NEF was willing to look beyond the fact that she had one client and spent time understanding the business model, what the future plans for expansion were and verifying the contract and information with Pick n Pay. The NEF also put conditions on the disbursement of finances to reduce its risk. This included that R850 000 would be retained until the business was able to secure a second client.

With the extension and further allocation of work to Rise Uniforms from Pick n Pay, there is a need for a further expansion. This would include additional productive capacity, and an appropriate storage facility, as well as to invest in improving the working conditions for the employees. Therefore, with support from the NEF, RISE Uniforms has submitted an application for funding under the Black Industrialist Programme.

3.2.2. Technical assistance for entrepreneurs

While the NEF provided financial assistance, it continues to play a mentoring role to the business with weekly communication to get feedback on operations and whether there were any challenges or concerns. It has also allocated an accountant for three days a week and has provided a back office. Furthermore, the NEF and accountant have been working with the business on how to expand its client base and to diversify its business model.

3.2.3. Partnerships/collaboration with other stakeholders

The owner noted that there are often untapped opportunities from creating partnerships with both smaller and larger clothing manufacturers. For instance, the NEF investment has enable Rise Uniforms to purchase embroidery and screen-printing equipment. This has created an opportunity for the company to offer these services to smaller clothing manufacturers, where Rise Uniforms has a competitive edge. In addition, Rise Uniforms are outsourcing work to smaller manufacturers.

Furthermore, there are opportunities for the company to access export markets and mass manufacturing by partnering with larger clothing manufacturers and/or warehousing companies and being included in their value chains.

3.2.4. Working conditions and employee benefits

The owner agreed with the Committee that providing a safe working environment is important. She acknowledged that the lack of air-conditioning could negatively impact on workers' health and their productivity. However, the ability to address the matter would be dependent on the ability to make further capital investments.

She explained that as the business' turnover and production are increasing, she is expanding her workforce. Currently, the business offers workers a pension and funeral cover. Furthermore, she is looking at improving their remuneration package by including employee benefits, such as medical aid.

The business has also been creating new jobs for individual even where they do not have the necessary skills to work in the industry. These individuals are then offered on-the-job training.

4. The Noodle Factory

4.1. Overview

The Noodle Factory was founded in 2012 in Philippi, Cape Town. It is the first facility in South Africa to produce instant noodles. Initially, the owner of the company had been importing the instant noodle cakes. However, due to the 2008 global financial recession, the continued importation of the product was no longer financial viable. Consequently, he started investigating the possibility of manufacturing this locally. In 2009, the company approached the IDC with its proposal having failed to secure commercial funding for this project. The IDC approved R4,8 million for this venture at the end of 2010, which became fully operational in February 2012. A second round of funding had also been provided through the IDC and the Black Industrialist Programme in 2017. This funding has enabled the company to streamline its production and increase its capacity to fill growing local and international orders, such as for Shoprite and other corporate brands.

Currently, the Noodle Factory has the capacity to produce 1 million units a day and employs 447 people. It has achieved the necessary food safety accreditations and supplies local retail chains and various brands.

4.2. Matters arising

The following matters were raised by the management of the Noodle Factory:

4.2.1. Importance of IDC for venture capital funding

The owner of the Noodle Factory noted how difficult it had been to secure commercial funding for the manufacturing of instant noodles, as they had not been produced domestically at the time and was considered to be a high risk for financing. From 2009 to 2010, he had engaged with the IDC to secure funding for this project. While the IDC is willing to invest in venture capital, this is subject to a rigorous due diligence process to ensure the viability of such projects. As a result of this investment, the factory was initially able to create 25 jobs, which grew to 110 jobs. Once the demand for its product had increased, it was able to access the Black Industrialists Programme through the IDC and the DTI. The commissioning of the new production line resulted in permanent employment for 447 individuals. Thus, the IDC, along with other incentives, plays an important role in addressing the market failure to supply funding for start-ups.

One of the conditions that the IDC placed on the company was for it to acquire the relevant food safety certification to increase its trading opportunities. The Noodle Factory has attained HACCP[2], ISO[3] 17021 and FSSC 22000[4] certification.

4.2.2. Economies of scale

One of the key factors in determining the success of a business is its ability to leverage economies of scale to cover capital costs and lower overall production costs. This requires competitive production capacity, as well as access to markets to sell more products. While the IDC and other incentives have assisted with improving productive capacity, the company initially struggled to gain substantive market access. Its gain in market access was supported

[2] HACCP refers to Hazard Analysis Critical Control Point, which "is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product." (U.S. Food and Drug Administration 2018)

[3] ISO refers to International Organization for Standardization.

[4] FSSC 22000 refers to the Foundation Food Safety System Certification 22000, which offers a complete certification Scheme for the auditing and certification of Food Safety Management Systems and/or Quality Management Systems. (FSSC 22000 n.d.)

by the relevant food safety standards that it maintained as well as leveraging large retailers and corporate brands to displace their imports with local production. However, the owner noted that there was still substantive resistance to purchasing locally with a number of companies still importing instant noodles from Asian countries.

4.2.3. Impact of load-shedding

The factory has a generator but with its additional production line, it is not able to continue operating at full capacity during load-shedding. Furthermore, the cost of load-shedding includes the cost of operating the generator but also the loss of products as the oil used to cook the noodle cakes must be maintained at a specific temperature for food safety purposes. The cost of operating the generator is not a planned cost and as such is not factored into the price being charged to clients. Therefore, this erodes the profit margin for the company and other businesses. Greater certainty around load-shedding could alleviate some of these losses, as businesses could plan accordingly.

5. Conclusions

The Committee raised the following issues:

5.1 The Committee welcomed the Industrial Development Corporation's investment within the film industry and its concomitant positive impact on job creation and on small businesses, which support the film industry.

5.2 However, the Committee was concerned that failure to increase the physical capacity of the Cape Town Film Studios and to develop other domestic studios would most likely lead to minimal growth in the industry, which potentially could have a negative impact on its ability to attract additional work and thus its job creating capacity.

5.3 The Committee noted the industry's acknowledgement of the positive impact of the Film and TV incentive programme on transformation. However, it was concerned that the sustainability of this growth would be dependent on the growth in the South African film industry's global market share.

5.4 The advent of a number of live streaming service providers has led to an increased demand for content to be produced in a shorter space of time. This has exceeded the global supply of film studios and provides an opportunity for South Africa to grow its global market share, as well as the number and size of domestic film studios and production companies.

5.5 While the Committee acknowledged the fiscal constraints and the need to spread the Film and TV incentive to a wide number of stakeholders, it was of the view that the incentive programme should be reviewed to consider either using a tax incentive or adjusting the cap to factor in the type of production and the amount being spent on it in South Africa. This was critical given the indirect economic benefits of foreign productions.

5.6 The Committee welcomed the Cape Town Film Studios' contribution to producing local films and television series, but it acknowledged the concerns raised by the Film Studio that the absence of programmes that nurture the development of local content into films may impede the development of the local film industry.

5.7 Furthermore, the Committee welcomed the Film Studios' contribution to the transfer and development of a variety of skills to local communities, which includes skills such as carpentry, construction and costume production.

5.8 The Committee noted the challenges raised by RISE Uniforms and the Noodle Factory about accessing credit from commercial and development financial institutions. There is a need for financial institutions, in particular development financial institutions, to relook at their risk models for assessing small, medium and micro enterprises.

5.9 The Committee welcomed the approaches by RISE Uniforms and the Noodle Factory to build partnerships with other companies to improve their competitiveness and economies of scale; thus, growing their businesses and job creation in the process.

5.10 The Committee acknowledged the technical assistance offered by the National Empowerment Fund and the Industrial Development Corporation to assist in developing RISE Uniforms and the Noodle Factory respectively.

5.11 The Committee was concerned about the non-compliance with the occupational health and safety conditions at the RISE Uniforms' factory, in particular the lack of ventilation and an air cooling system.

5.12 The Committee noted the challenges raised by the Noodle Factory regarding the impact and cost implications of loadshedding due to the loss of production time and inputs.

6. Acknowledgements

The Committee acknowledges the management of the Cape Town Film Studios, RISE Apparel/Uniforms and the Noodle Factory for their cooperation and willingness to share their experiences and lessons learnt.

The Committee also wishes to thank its support staff in particular the committee secretaries Mr A Hermans and Mr T Madima, the content advisor, Ms M Sheldon, the researcher, Ms Z Madalane, and the committee assistant, Ms Y Manakaza, for their professional support and conscientious commitment and dedication to their work. The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

7. Recommendation

Informed by its deliberations, the Committee recommends that the House requests that the Minister of Trade and Industry should consider engaging the Minister of Sports, Arts and Culture to initiate a programme to nurture the development of local content, including indigenous stories, to translate this into film and television production.

Report to be considered.

References

FSSC 22000 (n.d.) Scheme. Available: < https://www.fssc22000.com/scheme/>.

U.S. Food and Drug Administration (2018) *Hazard Analysis Critical Control Point (HACCP)*. Available: <https://www.fda.gov/food/guidance-regulation-food-and-dietary-supplements/hazard-analysis-critical-control-point-haccp>.

2. Report of the Portfolio Committee on Trade and Industry on their oversight visit to Gauteng from 4 to 5 February 2020, dated 19 June 2020

The Portfolio Committee on Trade and Industry having visited entities reporting to the Department of Trade and Industry (DTI), namely the National Regulator for Compulsory Specifications (NRCS) and the South African Bureau of Standards (SABS) to assess their progress in terms of implementing their turnaround strategy and the resolution of their audit findings, reports as follow:

1. Introduction

In terms of section 42(3) of the Constitution of the Republic of South Africa, the National Assembly among others must scrutinise and oversee Executive action. The National Assembly through the Portfolio Committee on Trade and Industry oversees the work of the DTI and its entities to ensure that national priorities such as the creation of decent employment are met. The DTI's main mandate is to facilitate the creation of an environment conducive to industrialisation and regional economic development that facilitates economic transformation. Furthermore, it facilitates regional and international trade and investment, promotes exports, regulates companies and ensures consumer protection. In this regard, it maintains the technical infrastructure to support these objectives.

The technical infrastructure framework includes four institutions that collectively ensure that products and services conform to national standards and/or compulsory specifications, where applicable. The purpose of this framework is to enable domestic and international trade, while protecting consumers in terms of their health and safety and from unfair practices such as being sold packaged goods which are underweight. Furthermore, the framework plays a role in the protection of the environment in terms of plant and animal health.

The four technical infrastructure institutions, namely the National Metrology Institute of South Africa (NMISA), the NRCS, the SABS and the South African National Accreditation System (SANAS), play complementary and supporting roles to one another to achieve their mandates. These roles, as well as the inter-linkages between these institutions, are described below:

The NRCS develops and administers technical regulations and/or compulsory specifications. This involves inspecting goods and approving the local manufacture or import of goods, such as vehicles, electrical, chemical, and food products, to ensure that these meet the health and safety requirements. The applicable compulsory specifications may refer to national standards or a provision of the national standards, which the SABS develops, as those aspects are deemed to be critical for the safety of consumers. The NRCS relies on testing laboratories to provide test results that are comparable to the applicable compulsory specifications, which it then inspects for compliance. These testing laboratories, as well as the NRCS' inspectors, would have been accredited by the SANAS. The SANAS ensures that these agencies and/or agents have the necessary competence to test against specific standards, which may include international standards.

Furthermore, an industry may volunteer to set and meet national standards (namely the South African National Standards (SANS)). The SABS would be responsible for facilitating the development of these standards. The SANS can be based on international standards that can be adjusted to suit particular domestic conditions such as the climate and technical capabilities or developed specifically to suit the South African situation. When an industry player wishes to meet the relevant SANS, its product or service would undergo testing against the SANS. This testing can be conducted by SABS or private testing laboratories or certification bodies, who should also be SANAS accredited.

Currently, the NRCS also ensures that legal metrology technical regulations are met, such as weight, volumes and distances. In other words, a consumer will receive the same quantity of goods in one part of the country as another. Once the Legal Metrology Act (Act No. 9 of 2014) is fully operational, the NRCS will expand its mandate to other aspects of measurement for health, safety and environmental protection, such as pressure and temperature. The NMISA is the custodian of the measurement standards, which underpin all trade activity and various health and safety aspects. It plays a foundational role within the technical infrastructure framework, as it provides for the use of measurement units of the international system of units.

For the oversight, the Committee focused on two of the four technical infrastructure institutions, namely the NRCS and the SABS. These were identified due to challenges they are facing which were identified during the Committee's 2018 and 2019 Budgetary Review and Recommendation processes.

1.1. Purpose of the visit

The Committee embarked on an oversight visit on 4 and 5 February 2020 to the NRCS and the SABS in Gauteng. Oversight visits provide the Committee with an opportunity to ascertain whether reporting by the DTI and its entities are a true reflection of its actual service delivery and/or progress made.

The purpose of the oversight visit was to further engage the NRCS and the SABS on governance and audit matters raised during its 2019 Budgetary Review and Recommendation Report process. In the case of the NRCS, these audit findings had been recurring over the last six financial years. The main purpose of the Committee's visit to the NRCS had been to receive an update on the implementation of its turnaround strategy and its Information and communication technology (ICT) modernisation project, as well as the progress on resolving ongoing audit findings regarding the estimation of levy revenue. In addition, to understand the NRCS's key processes for processing letters of authority (LOAs), testing and inspections.

Furthermore, the SABS had been placed under administration in July 2018 and were implementing a turnaround strategy to address governance and operational matters. The main purpose of the Committee's visit to the SABS had been to receive an update on its implementation of the turnaround strategy and to see and engage on areas of concern raised, such as its funding/financial position as well as to understand some of its key processes in standards development, testing and conformity assessment. Specific focus areas included:

- The state of the plant room[1] and measures to mitigate against the impact of unplanned Eskom electricity outages;
- Laboratories that require refurbishment, technological upgrades and/or were facing skills shortages;
- Maintenance plan for facilities;
- Its strategy to regain and maintain financial sustainability going forward;
- Its staff retention plan given the proposed changes and cost-cutting initiatives;

[1] A plant room is a room or space in a building housing mechanical equipment and its associated electrical equipment, such as air handlers, boilers, chillers, heat exchangers, water heaters and tanks, water pumps (for heating/cooling, and firefighting water, main distribution piping and valves, back-up electrical generators, elevator machinery and other HVAC (heating, ventilation and air-conditioning) equipment. This is to operate HVAC cycles, lighting, communications, and life safety equipment for the entire SABS campus.

- Future areas for development that would enhance industrial support; and
- Progress in finding a resolution to the continuous audit findings.

1.2. Delegation

The following Members of Parliament participated in the oversight:

- Mr M Cuthbert (Democratic Alliance (DA)),
- Ms J Hermans (African National Congress (ANC)),
- Mr D Macpherson (DA),
- Ms P Mantashe (ANC),
- Mr S Mbuyane (ANC),
- Ms R Moatshe (ANC),
- Ms N Motaung (ANC),
- Mr F Mulder (Freedom Front Plus),
- Mr D Nkosi (ANC) (Chairperson),
- Mr W Thring (African Christian Democratic Party), and
- Ms Y Yako (Economic Freedom Fighters).

The Committee was supported by the following members of staff:

- Ms Z Madalane, Researcher;
- Mr T Madima, Committee Secretary;
- Ms Y Manakaza, Committee Assistant; and
- Ms M Sheldon, Content Advisor.

1.3. Purpose of the report

This report captures the substantive discussions the Committee had during the oversight visit. The Committee Secretaries can be contacted for access to the detailed presentations from the NRCS and the SABS.

2. National Regulator for Compulsory Specification

2.1. Mandate

The NRCS was established on 1 September 2008, as a national regulatory agency under the National Regulator for Compulsory Specifications Act (Act No. 5 of 2008). Its mandate is to promote public health and safety, environmental protection and fair trade through the development and administration of compulsory specifications and/or technical regulations. In addition, it considers products for pre-market approval (including the issuing of LOAs) and engages in market surveillance activities at the ports of entry and within the domestic market to ensure compliance with the requirements of the compulsory specifications and technical regulations. These activities seek to protect consumers and the environment against unsafe and harmful products. Where products are found to be non-compliant, the NRCS may impose administrative sanctions through sales or import restraints, withdrawal of NRCS approval, product recalls, confiscation and destruction of these products, or the return of imported products to their country of origin. These sanctions are at the cost of the manufacturer or importer of the non-compliant products.

Furthermore, the NRCS administers the Legal Metrology Act and the National Building Regulations and Building Standards Act (Act No. 103 of 1977), as well as other delegated legislation or regulations that fall under other departments as far as they relate to compulsory specifications to protect human health and safety, and the environment; and to ensure fair trade.

The areas currently regulated by the NRCS include[2]:

- *Automotive*: Vehicles, replacements components, manufacturers, importers and builders;
- *Chemicals, Materials and Mechanicals*: Cement, chemicals, detergents, personal protective equipment, safety shoes, building materials, treated timber, plastic bags, solar water heaters, and plumbing equipment;
- *Electro-technical*: Electrical appliances and products, such as plugs, adaptors, switches, power tools and lighting components;
- *Food and Associated*: Fishery products, canned meat and processed meat;

[2] NRCS (2020a)

- *Legal Metrology*: Calibration of measuring instruments, weights, measures and gaming equipment; and
- *Building Regulations*: Ensure uniform interpretation of National Building Regulations and Standards Act, and administer Review Board.

2.2. Background

Over the past five years, the main challenges for the NRCS have been the delays in processing LOAs, particularly in the Electro-technical Business Unit, and the technical audit qualification linked to revenue collection. The Committee in the fifth Parliament highlighted that the manual processing of LOAs was a concern as the LOAs still to be processed were being stored in a room that appeared to not be sufficiently secured. This backlog of LOAs had been as a result of a significant increase in the number of applications since 2009 that spiked during the 2013/14 financial year.[3]

This was due to increased international trade and an influx of imported products that must comply with the NRCS's compulsory specifications. This resulted in the implementation of a Border Enforcement Strategy[4] that would ensure that regulated products being imported had the necessary approval and that approved products were equivalent to the prototype that had been approved. This strategy involves surveillance at ports of entry to ensure compliance with compulsory specifications. The NRCS also ranked importers based on historical compliance to target high risk importers. Therefore, importers have increasingly applied for LOAs to ensure that their products are allowed into the South African market.

Secondly, the NRCS had received a technical revenue qualification for six consecutive financial years. In this regard, it is required to collect levies from companies for administering compulsory specifications on an annual basis. However, according to the Auditor General, the NRCS does not have effective systems to account for the revenue from all regulated companies. In some cases, companies are registered but revenue is not being collected and in others not all regulated companies are registered. Therefore, the NRCS is unable to make accurate projections of its levy revenue and does not collect the amount of revenue it should be

[3] NRCS (2016b)
[4] NRCS (2016a)

collecting. As the qualification was technical in nature, the NRCS management and the Auditor General noted that the qualification could only be resolved through an automated system.

In 2016, the NRCS proposed the development of an ICT strategy and started the ICT modernisation project[5]. This project was aimed at ensuring that the processes were automated to address the challenges with backlogs in processing LOAs and the audit finding related to the estimation and collection of levy revenue.

By November 2017, the system had been developed for the implementation of the ICT Master System Plan. However, it was not finalised due to challenges in the customisation of the system. Furthermore, the NRCS noted that it did not have the necessary skills internally to implement the modernisation project. The delay in implementation had also been a result of resignations of the project manager and the Chief Financial Officer and other employees that were critical in the modernisation project such as the Chief Executive Officer. Furthermore, the NRCS had encountered challenges during the procurement process with the supplier that had been alleged to have insight into information having served as a member of the ICT Steering Committee of the NRCS, which advised the NRCS on the modernisation project. As a result, the implementation of the modernisation project had been delayed to January 2018.

While there had been continued delays in implementing the ICT Modernisation project, some interventions had been made including the:[6]

- establishment of the Audit, Risk and Compliance Committee to spearhead this project, and to oversee the implementation of the project;
- appointment of the Chief Information Officer through a secondment from the State Information Technology Agency; and
- process to appoint a Supply Chain Manager which had been set to be finalised by 24 December 2019.

[5] NRCS (2016a)
[6] Portfolio Committee on Trade and Industry (2019)

Additionally, as part of its turnaround strategy, the NRCS informed the Committee that the DTI had seconded Financial and Information Technology (IT) specialist staff from the Companies and Intellectual Property Commission to ensure that the entity gets a clean audit.

2.3. Letters of Authority

One of the NRCS' essential roles is to issue approval certificates for a number of regulated products within the Automotive, Electro-technical and Chemicals Materials and Mechanicals sectors. It reported that currently 92% of the approvals were being finalised within 120 calendar days. Delays in processing these applications have a direct economic impact on manufacturers and importers, as they are unable to legally trade or import these regulated products without the requisite approval certification.

It acknowledged that there had been a backlog in 2018 and at the beginning of 2019. This had been resolved and it no longer had applications above 120 days that were awaiting evaluation. However, some applications above 120 days were awaiting the resolution of findings by the applicants. In addressing these, the NRCS informed the Committee that it had introduced a policy to cancel applications where applicants did not resolve findings that the client had been informed of within 30 days, and that it had implemented controls to ensure adherence to this cancellation policy.[7]

On average, the Electro-technical Business Unit received 1 300 applications per month. As stated in its turn-around strategy, the NRCS has committed to reducing the number of applications on hand to 1 300. As at the end of January 2020, there had been 1 644 applications on hand, with 430 unassigned; 657 awaiting capturing; 169 assigned for technical evaluation; and 388 awaiting corrective action/pending. The Industrial Action had added about 270 applications to the applications on hand, and instead of the NRCS reducing the number of applications to 1 300 by the end of April 2020, it would reduce the number of applications to 1 300 by 31 May 2020.[8]

[7] NRCS (2020b)
[8] Ibid

2.4. Audit findings

The NRCS had received qualified audit opinions over the last six years. The consistent finding relates to a technical revenue qualification in terms of the completeness and cut-off of revenue. The NRCS has attributed this to historical challenges in terms of its regulatory mandate/activities and that revenue collection has been effected through manual systems. The latter has been flawed due to poor internal coordination between operational business units and support functions and that applications had increased significantly over the past few years. During the 2018/19 financial year, the audit qualification was due to (i) revenue completeness; (ii) revenue not accounted for in the correct accounting period (namely, the cut-off revenue); (iii) the employee benefit obligation; (iv) provision for leave; and (v) general expenses.[9]

The NRCS had reported that it had developed a detailed Audit Action Plan, that was being monitored on a bi-weekly basis. As at the end of January 2020, 45 out of the 84 Audit findings had been resolved. In terms of the 39 outstanding findings, it had categorised these findings in terms of system, processes and people issues. There were 32 process and people related findings that were outstanding and management was in the process of addressing these by 31 May 2020. The remaining seven outstanding system findings were related to the financial system deficiencies. These would be fully resolved with the implementation of the Enterprise Resource Planning at the end of March 2021. However, some interim controls would be implemented to address some of the internal control deficiencies.[10]

The NRCS also assured the Committee that consequence management had been implemented for employees that were deliberately failing to ensure good governance in the institution. In this regard, the Chief Financial Officer's contract had been terminated by mutual agreement in February 2020 due to a lack of leadership and two other employees have been issued with written warnings. Processes had been implemented to ensure that the financial statements could be concluded timeously in spite of the termination.

2.4.1. Estimation of Levy Revenue

The NRCS Act requires that any person who imports, sells or supplies a commodity or product manufactured, built or imported, to which a compulsory specification applies, must pay fees

[9] NRCS (2019)
[10] NRCS (2020b)

(levies) to the NRCS as prescribed by the regulations. The NRCS informed the Committee that it had only been estimating its levy revenue based on the companies it had registered, issued pre-market approvals to or identified through its market surveillance inspections (so-called known companies). However, the basis for the audit qualification relating to revenue completeness had been that:[11]

- There were companies submitting levy declaration forms and declaring levies to the NRCS which were not registered by the NRCS ("unknown") as per the regulation.
- The estimation methodology used by the NRCS had not factored in the official economic growth statistics for the 2018 calendar year and assumed that there should be a 10% increase in units to be declared by all levy payers across all different sectors of the economy. This means that the NRCS assumed that the levies would not be affected by bad economic conditions, which was unrealistic.
- Approximately 15% of the levy declarations had been estimated to achieve the 100% levy declarations.
- There had been a failure to reverse accruals.
- There had been a failure to consistently charge the R500 administrative penalty fee for all levy payers who had not submitted returns.

Furthermore, the Auditor-General had found that the levy revenue had not been effectively distributed into the correct financial year to account for so-called cut-off revenue. The NRCS explained that its levy declaration periods are linked to the calendar year with four mandatory periods for production figures to be declared as per the regulation and two bi-annual levy periods that are accompanied by payments. The first period covers 1 January to 30 June and the second covers 1 July to 31 December. 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. However, the industry is not complying with the requirement to submit the quarterly declarations and there are no stringent penalty mechanisms to force them to[12], which may require a legislative amendment.

[11] NRCS (2019)
[12] Ibid

In order to address the cut-off service revenue finding, the NRCS had proposed that a proper referencing system for payments should be developed, so that each application for an approval certificate or a LOA can be linked to a payment.[13]

In terms of the estimation methodology, the NRCS informed the Committee that it had completed the position paper on levies in a bid to resolve the audit qualification. The estimation methodology would be utilised to estimate levies for regulated companies that fail to comply with the NRCS Act and Regulations with regards to levy declarations. The NRCS was in consultation with the Office of the Auditor General on whether the methodology, if implemented, could address the qualification.[14]

2.4.2. Human resource management

In terms of the employee benefit obligation and the provision for leave, the NRCS had failed to timeously submit the actuarial evaluation reports for long service and retirement, medical aid benefits, as well as for leave provision to the Office of the Auditor General. The chief financial officer is responsible for ensuring that the actuarial evaluations are completed and that the financials incorporate the correct financial information. Human resources support this responsibility by providing the employee data and applicable/relevant human resources policies and procedures underpinning this. For the 2019/20 financial year, the Strategy Business Unit would manage the project. Actuaries would be appointed to conduct the evaluations by 17 April 2020.[15]

In terms of the leave provision, the NRCS had indicated that it had entered into an agreement with the SABS to use its electronic payroll system as of 1 December 2019. This would allow the NRCS to easily extract leave reports and the applicable data.[16] The NRCS reported that it had successfully migrated the payroll to the SABS on a co-sourced basis and was successfully implementing electronic leave management as part of this system. This contract is for two years; thereafter, the NRCS would have an in-house payroll system that is being implemented as part of the Enterprise Resource Planning project, the first phase of the Modernisation project. In addition, the auditing of leave from the prior financial year has been completed.[17]

[13] Ibid
[14] NRCS (2020b)
[15] NRCS (2019)
[16] Ibid
[17] NRCS (2020b)

2.5. ICT Modernisation Project

The NRCS has secured an ICT specialist to assist it with its ICT modernisation strategy. The modernisation focus should be to improve the regulatory emphasis of the NRCS. This can be facilitated by stream-lining the non-value-adding components or business processes; enabling the core business processes like the inspections and approvals; and improving the ease of doing business with the NRCS, such as the customer registration process.[18]

To achieve this, the right infrastructure and bandwidth must be in place to ensure a sustainable, reliable, secure, effective and efficient system. Once this is in place, the NRCS can consider paperless processes and increasing its digital footprint by providing alternative access options. The system should also allow the NRCS to reshape and reprioritise its modernisation strategy based on client demands and needs.[19]

The current Customer Relationship Management system is being utilised to receive about 17 000 applications for pre-market approvals, including for LOAs, per year. However, it does not incorporate the end to end process. As such the approval process is performed outside of this system.

To date, the ICT modernisation project has prioritised four components, namely:[20]

- The Enterprise Resource Planning System, which includes financial management, human capital, asset management, etc. The bid for this system had been advertised and the process of evaluating it had been under way. This project was expected to be implemented by end March 2021.
- The Regulatory System/Operations System focused on the core areas. To date, eForms had been implemented for online registration for meat products and was being tested. The Resource Company Bid for the Regulatory System should be finalised by March 2020.
- Addressing challenges with the existing JD Edwards system, which was an accounts management system.

[18] NRCS (2020a)
[19] NRCS (2020a)
[20] NRCS (2020a and 2020b)

- Upgrading the ICT infrastructure. In this regard, the ICT bandwidth would be upgraded by March 2020.

The budget for the modernisation project was R50 million and would be reviewed after the finalisation of the scope for the Regulatory System[21].

2.6. Legal Metrology

The Legal Metrology Act was assented to in August 2014 and changed South Africa's metrology regulatory landscape from a focus on trade measurements (namely mass and volume) to a broader mandate that supports other regulatory priority areas, such as health, safety and environmental protection. The Act applies to measurable products and services; any measuring instruments used for a prescribed purpose, namely, measurements made in trade, health, safety and the environment.

The purpose of legal metrology is to ensure that consumers receive the correct measure of goods declared by importers, manufacturers, retailers or service providers on a pre-packaged product or when providing a service. Furthermore, it ensures that where a measuring instrument is used to conclude a transaction, measurement or service, that the measuring instrument accurately measures within the prescribed limits of error. Thus, the NRCS protects citizens against short measure and inaccurate measurements by regulating types of measuring instruments. This entails:

- Approving and verifying measuring instruments to ensure that they comply with the relevant requirements and are suitable for their intended use;
- Controlling the repair of measuring instruments; and
- Carrying out market surveillance through inspections to monitor compliance with legal metrology technical regulations.

Other objectives of the Act are to establish a levelled playing field for industries and to support local industry's competitiveness. The NRCS also provided the Committee with a number of examples of why the transition from trade metrology to legal metrology was necessary to account for technological developments and changing priorities. Some of these were to (i)

[21] NRCS (2020b)

protect scarce water resources for agricultural purposes through the measurement of bulk water; (ii) support industry by measuring data to determine changes in the marketing of goods and to enable companies to compete in international markets; (iii) to support road safety interventions through the calibration of speed trapping equipment and breath analysers to ensure their accuracy; and (iv) to ensure the accuracy of syringes, blood pressure measuring instruments and clinical thermometers in the health sector.

The NRCS informed the Committee that it was using a phased-in implementation process for legal metrology. The regulations had been finalised and promulgated by the Minister of Trade and Industry in 2018. Subsequently, the NRCS had developed an implementation plan and some interim requirements to address part of the new scope had been finalised and were being implemented, for example for breath analysers, e-tolls, gas meter and weighbridges. Further actions planned were the development of technical regulations and/or interim requirements for the expanded scope.

Furthermore, during the legal metrology laboratory visit, a number of challenges facing the business unit were highlighted, namely:

- The unsuitable location of the laboratories, as the equipment was sensitive to environmental conditions such as gravity. This required additional calculations to be done to mitigate the effect of gravity. Ideally, laboratories should be underground or at ground level to facilitate accuracy.
- Laboratory conditions were also critical to accurate readings, in particular, temperature control could negatively impact on samples where the temperature should be kept at 20˚C. However, where this was not possible the NRCS would have to perform additional calculations to address this. Certain infrastructure, such as appropriate blinds, would assist in addressing this.
- The impact of electricity outages on the SABS campus on its readings. This was exacerbated by the fact that the NRCS laboratories were not part of the SABS' essential infrastructure which is serviced by generators when there are electricity outages; therefore, outages impacted on its overall laboratory conditions leading to lost productivity.

- Too few inspectors and type approval specialists, as well as too little funding to fulfil the expansion of the NRCS' legal metrology mandate nationwide. Currently, the NRCS only have 26 inspectors and four type approval specialists that cover the entire country.

2.7. Other issues

2.7.1. Compulsory Specifications for Part-worn Tyres

The NRCS explained that it has a corporate procedure for the development of Compulsory Specifications (CSP 350 procedure) aligned to Section 13 of the NRCS Act. According to the procedure, any person or organisation may submit a request that any Technical Regulation/Compulsory Specification, to be administered by NRCS, be introduced, or an existing one, be amended or withdrawn. The NRCS can also proactively determine safety-critical products or services in the scope of NRCS' regulatory work.[22]

These requests or identified products/services are assessed by the relevant Technical Specialist for feasibility and the feasibility report is presented to its Projects Approval Committee, a project proposal will also be assessed at this stage. All feasible projects are registered at the Chief Executive Officer's (CEO) office and forwarded to the head of Regulatory Research and Development Business Unit. Risk and impact assessments are conducted on all feasible projects for new technical regulations. As part of the compulsory specification development process, the NRCS consults with affected stakeholders on any requested new technical regulations or amendments to, or withdrawal of, existing ones. A decision on the introduction of any new technical regulation is based on feasibility, risk assessment and impact assessment reports.[23]

The NRCS concluded that although the part-worn tyres project had been through the NRCS Compulsory Specification development process and technical issues had been raised, the project has been elevated to the DTI for further engagements and collaboration with other government departments.[24]

[22] NRCS (2020b)
[23] Ibid
[24] Ibid

2.7.2. Enforcement

The NRCS noted that the current administrative sanctions provided in the Act are not sufficient/effective deterrents to ensure compliance with the Act. Currently, it only provides for the NRCS to report cases to the South African Police Service (SAPS), which must go through the court processes, as there is no Tribunal in place. The NRCS is of the view that the SAPS does not consider these types of cases a priority and that the fines imposed by the courts are negligible. Therefore, there is a need to reconsider enforcement mechanisms through a review of the Act.

2.7.3. Record-keeping of archived files

The Committee observed that the NRCS was housing a number of archived files on-site, which had been previously housed off-site. This was through a contract with Metrofile that appeared to have lapsed. It was concerned that these files could contain sensitive information that was no longer securely archived and, if stolen or damaged, could have legal ramifications for the NRCS.

The NRCS confirmed that an off-site storage facility for archived files was a mandatory record keeping requirement and that the contract with Metrofile had expired. Furthermore, it informed the Committee that it had timeously appointed a new service provider for its off-site storage facility. However, the NRCS had discovered that the successful bidder had changed the pricing from what it had initially submitted in its bidding documents. As a result of this irregularity, the supply chain management had to cancel the contract. A new tender process had been initiated to source a suitable provider, which is expected to be resolved by the first week of March 2020.

2.7.4. Labour concerns

The NRCS reported that in terms of critical vacancies, it had filled the position of Financial Manager, who would be commencing work on 1 April 2020. The NRCS informed the Committee that it had identified a person to fill the position of Head of Supply Chain Management and it had anticipated that the person would commence work by 1 April 2020.[25]

[25] Ibid

Furthermore, the Organisational Review Project would be completed on 31 March 2020. At the conclusion of the project, the NRCS would have a new organisational structure/organogram. However, the organisational review implementation would be subject to the outcome of the consultation with the Minister of Trade and Industry as per section 8(b) of the NRCS Act. Thereafter, the NRCS would migrate employees from the old to the new structure. The migration process would be completed by 31 March 2021.

There had been ongoing concerns regarding the fragile labour environment at the NRCS[26], which were reemphasised due to the industrial action during the Committee's oversight visit. The NRCS management confirmed that the organisation had an active Union, which was involved in all matters affecting the entity. In its written response to the Committee, dated 18 February 2020, regarding this, the NRCS reported that the industrial action had been halted, but that labour and the NRCS had still been engaging through the Central Bargaining Forum under the DTI[27].

In addition, the NRCS clarified that the salary disparities were between management and specialists, as the salary increases negotiated by the collective bargaining union disadvantaged lower level management (who are not part of the collective bargaining) who were in some instances earning less than their sub-ordinates. The disparity was as a result of the bargaining union's salaries being based on cost plus benefits, while management was being paid on the basis of total cost to company.

2.7.5. Inspector Migration[28]

The NRCS indicated that it has a development program for the inspectors. Positions were advertised at candidate level, where an individual would be trained for 24 months to become a qualified inspector.

The development process was documented and was followed from Candidate Inspector, Inspector, Senior Inspector and the highest level was a Principal Inspector. On migration from one level to the other, the employee would start at the bottom of the salary scale for that respective grade.

[26] Portfolio Committee on Trade and Industry (2019)
[27] NRCS (2020b)
[28] Ibid

3. South African Bureau of Standards

3.1. Mandate

The SABS is a statutory body that was established in terms of the Standards Act (Act No. 24 of 1945) and after a number of legislative reforms is now governed by the Standards Act (Act No. 8 of 2008). The SABS, as the national standardisation institution in South Africa, is mandated to:

- Develop, promote and maintain SANS;
- Promote quality in connection with commodities, products and services; and
- Render conformity assessment services and matters connected therewith.

3.2. Turnaround Strategy

After the SABS had been placed under administration, the co-administrators had been mandated to (i) undertake a diagnostic analysis of the SABS, (ii) develop a 'turn-around' strategy for the institution, and (iii) implement this strategy in consultation with the shareholder. The diagnostic process had focused on:[29]

- An analysis of the financial position of the SABS and its short and long term sustainability, institutional arrangements and business model;
- Identification of the critical short-term 'burning platforms' inclusive of the permit backlog, immediate client/customer complaints and the moratorium on 'partial' testing;
- Re-enforcement of core SABS mandates with special emphasis on Conformity Assessment and Standards; and
- An evaluation of the structural issues and constraints including infrastructure and equipment.

The diagnostic process highlighted the following:[30]

- *Relationship with the shareholder*: There had been an unsustainable adversarial policy and mandate creep from the shareholder that impacted on the SABS' financial sustainability.

[29] SABS (2019a)
[30] Ibid

- *Stakeholder and client relations*: The relationship with stakeholders and clients had deteriorated as there had been sub-optimal resolution of complaints and queries. Furthermore, customer specific requirement testing had been discontinued, which led to a loss of clients. This negatively impacted on the capacity/capability in testing infrastructure as the amount of work declined.
- *Ineffective or sub-optimal business processes*: Business processes at the time had led to permits expiring and loss of accreditation in certain laboratories, and impacted on standards development.
- *Human capital and policies*: There had been a loss of critical skills leading to long-standing mission critical vacancies. In addition, there had been arbitrary shifting of functions and personnel deployment, as well as a degraded performance management system. In terms of policies, there had been a sub-optimal suite of policies. This created pervasive bottlenecks, for instance in procurement.
- *Maintenance and facilities*: There had been serious shortcomings and lack of capex investment in plant and equipment impacting on the functioning of laboratories.
- *Finances*: The SABS had experienced a drastic drop in revenue from conformity assessment and laboratory services. Furthermore, the SABS had received a disclaimer audit opinion in the 2018/19 financial year.

The co-administrators opted to develop and implement a turnaround strategy that is made up of a carefully sequenced, interlocking series of interventions linked to the SABS' fiscal position and revenue generation. Thus far, the turnaround strategy had three phases. The first phase had been to stabilise SABS through the co-administrators and initial interventions to stabilise the institution. The second phase was being implemented. This was to fix the business by addressing operational challenges, rectifying various basic business processes. The third phase would be to chart a new course. This would entail appointing a new Board and CEO to determine the longer term structural, strategic and systemic issues involving the future direction of the SABS including its business model and company structure, namely its cost structure and the mix of 'public good' and commercially viable services.

Second phase initiatives were supported by a detailed project plan, allocated project owner and delivery timeframes. All project plans were available on a shared IT portal and were monitored

on an on-going basis to ensure that challenges were identified early on and deadlines were met timeously.

3.2.1. Financial Situation[31]

There were broadly two challenges facing the SABS in terms of its financial situation. The first was that it was not generating sufficient revenue from conformity assessment services to cover its operational expenditure. Secondly, its cost base was too high and needed to be reduced. Its employee expenditure accounted for approximately 70% of its administrative and operating expenditure and the increased benefits awarded to central bargaining unit employees, an additional R65 million per annum), without a corresponding increase in productivity. Furthermore, it had a national footprint that included costly infrastructure that needed regular maintenance.

As the SABS provides a broad range of "public good" services in a competitive market at a relatively high cost, it was imperative that a significant amount of additional revenue must be generated and costs must be cut. Failure to achieve this would result in cash resources being depleted by March 2021.

The SABS forecasted that it would only achieve break-even point in the 2022/23 financial year. This would be achieved by focusing on revenue generation and additional cost-containment measures. For the 2019/20 financial year, it had estimated that it would have a budget deficit of R53,1 million against a budgeted deficit of R44 million. This was mainly due to a revenue shortfall from laboratory and certification services due to low sample volumes from customers and cancellations in certification. This would necessitate the use of cash surpluses generated in the past.

Planned cost reduction initiatives included:

- *Employee benefits*: Post-retirement medical benefits; ongoing review of vacant positons and only filling critical positions; review of benefits and long-service leave; and early retirement packages.

[31] SABS (2019b; 2020)

- *Other operating expenditure*: Implementation of energy efficiency measures; and review of general administration expenditure e.g. printing, subscriptions, catering, telecommunication and contract services.

Other focus areas were procurement, finance and facilities. In terms of procurement, the SABS reported that it would develop a supplier development programme; finalise the integrated demand plan; and review all existing contracts. In terms of finance, there was currently no differentiation in pricing; however, it was revising its pricing strategy to ensure competitive rates in the market. Furthermore, it would develop a direct/indirect cost analysis model to determine costs per laboratory. In terms of facilities, it would be developing a property development strategy to better utilise its existing infrastructure and determine options to use its infrastructure to assist in generating additional revenue. It would also finalise the Q-block review with engineers (see sub-section 3.2.2.2); continue to upgrade the plant room (see sub-section 3.2.2.1) and refurbish or clean-up laboratories; and create an ongoing maintenance schedule.

3.2.2. Facilities

One of the key focus areas is facilities. This includes a property development strategy; the continued upgrading of the plant room, and refurbishment or clean-up of laboratories; the creation of a maintenance schedule; and finalisation of the Q-block review with engineers. The Committee was taken on a tour of the following facilities:

3.2.2.1. Plant Room and auxillary piping network

The plant room plays a critical role in ensuring appropriate conditions throughout the SABS campus. This includes conditions for human comfort in the offices; and correct temperatures for different tests and humidity in the laboratories to ensure the accuracy of test results. The SABS had concluded phase one of the Plant Room Refurbishment Programme and had been implementing phase two which included a further upgrade to the plant room during the 2019 December shutdown. The next phase would be to replace the auxiliary networks of pipes at an estimated cost of R12-R20 million. This could take about 12 to 18 months to complete.

Phase one had refurbished the boilers, fixed the supporting plinths, refurbished the heat exchanger and improved the general lighting in the plant room. It had also involved general house-keeping such as colour-coding pipes for ease of reference and to increase safety. Thus,

the plant room efficiency had improved including reduced electricity usage. However, the improved efficiency was expected to put additional pressure on the auxillary system, which was yet to be refurbished. Thus leading to pipe bursts that would need to be maintained while funding for replacement was being sourced.

3.2.2.2. Q block

In 2008, a decision had been taken to construct new laboratories in the Q block, which would operate independently from the main plant room. Construction had commenced in 2010 and partial occupancy occurred in 2011. However, there had been challenges receiving a full occupancy certificate for all parts of the building due to the inability of the heating, ventilation and air conditioning system to provide stable environmental conditions to all laboratories, as well as certain fire requirements and some structural problems. The root cause being inadequate contracted design specifications. Currently three out of 10-12 planned laboratories were occupying the building. The former DTI had provided funding to the value of R300 million for the Q block, of which R205 million had been spent.

While the SABS had employed a number of contractors to address the challenges over the years, none of them had been able to fix the problems or to pinpoint what the issues were. Therefore, the SABS had appointed a multi-disciplinary engineering firm in December 2019 to advise it on the extent of the problem, to propose solutions and to indicate additional infrastructure requirements, as well as the potential cost to achieve full occupancy. The firm had given a preliminary report, in which they estimated that it would cost over R50 million to fix the building to make it habitable for the laboratories. Challenges included the HVAC system, which impacted on the control of laboratory conditions; and the building design appeared to be conceptually flawed. A final report had been expected by the end of February 2020.

Based on the final outcomes of the report, particularly the final estimated cost, the SABS would consider whether to convert the building into office space that can be rented out or whether the SABS partners with institutions like NMISA or the Council for Scientific and Industrial Research to use for laboratories with less stringent requirements. Funding would then rather be used to refurbish one of the other buildings. In addition, the final report was expected to assist in determining which contractors where responsible for the failures and whether the SABS had any legal recourse in this regard.

The SABS was also in the process of compiling an audit trail to determine who the responsible internal and external parties were from the beginning of this process. Where regulatory specifications were not adhered to at any stage of the process, the responsible parties would be reported to their regulatory bodies, such as the Engineering Council of South Africa. It endeavoured to update the Committee on the final outcomes of the report, its findings in terms of the audit trail and its course of action, once legal and other advice had been sought.

3.2.2.3. Laboratories

The SABS noted that it had 29 accredited laboratories across South Africa. These serviced about 4 000 clients and issued about 3 800 test reports annually. The laboratories serviced 32 industries, employed 124 test officers and implemented more than 900 test methodologies. The critical areas identified for improvement were (i) customer relations; (ii) strategic partnerships with regulators, decision-makers and other testing service providers; (iii) cultivating new markets to grow its revenue; and (iv) optimising its business processes through suitable and reliable testing infrastructure, keeping abreast with technological developments, and ensuring suitable technical competencies aligned with industry needs.

As part of its cost-containment initiatives, the SABS was assessing its laboratories to determine the priority areas, as the SABS must balance its public good role while ensuring that its commercial laboratories were financially viable. The turnaround plan set out four key priorities for laboratory services, namely to: (i) accelerate the cleanout of prioritised laboratories, production control and systems implementation and labware of prioritised laboratories; (ii) reorganise laboratories; (iii) develop clear proposal for loss-making laboratories; and (iv) work with Finance Department to ramp-up laboratory equipment investment programme.

The Committee visited the laboratories for testing rubbers and paints, condoms, set-top boxes, cement and agricultural products for pesticide residues. General issues raised included:

- The need for proper tracking of samples from receipt to issuing of the results that links to the finance department, the certification section and client management. This is to ensure the integrity of a sample throughout the testing or product certification process.

- The balance between capabilities and the number of samples received for testing that ensures that a laboratory remains viable; while ensuring that testing for the public good is not neglected.

The turnaround strategy is about re-establishing world-class capabilities that had been lost or eroded within the SABS.

3.2.2.3.1. Rubbers and paints laboratory

The rubbers and paints laboratory was currently only being partially used and was negatively impacted by the decision to discontinue partial testing. It was one of the laboratories that needed to be improved and up-scaled in terms of the testing capabilities to support the piping industry. However, the cost of the investment to regain the capabilities and the clients is substantial and the business case with limited funding is not viable. While the SABS had capabilities to test rubber products, it had insufficient samples and the equipment was no longer fit for purpose due to technological changes. The challenge was thus what to do in the interim and some of the work was being outsourced but this was not viable over the long run.

The laboratory was going through a process to identify the equipment that was no longer required to be disposed of through donations to other institutions or sold on auction. It would then look at the flow within the laboratory to design a more functional work space, as part of the laboratory reorganisation process.

The paint testing section was more actively used. It had state-of-the-art technology and was used to simulate the various weather conditions, e.g. paint for motor vehicles would be required to withstand different weather conditions, if the vehicle were to travel across the provinces.

3.2.2.3.2. Condoms laboratory

The condoms laboratory was run in partnership with government departments and agencies. It was responsible for batch testing consignments of condoms before condoms are distributed to the public. It also played a role in verifying that manufacturers meet the minimum requirements before the Department of Health awards its tender.

This involves the SABS certifying the manufacturing facility for compliance with the minimum quality standard and testing samples for SABS mark certification. Each batch contains a

minimum of 288 000 condoms, of which 800 packaged condoms per batch is selected by the SABS and tested against six or more parameters to ensure that they meet the minimum standards. The tests check the inflation of the condom and the pressure handling capacity, freedom of holes and other parameters including the length, and the amount of lubricant on the condom.

3.2.2.3.3. Set-top boxes laboratory

The set-top box laboratory was established as a result of a Memorandum of Incorporation between the DTI and the Department of Communications (DOC). The agreement had been that the set-top boxes would be procured by the Universal Service and Access Agency of South Africa with a GoDigital stamp, as authorised by the DOC and not the SABS. The SABS would then be responsible for providing conformity assessment for the set-top boxes.

The SABS had received R30 million to establish the laboratory to initially test digital terrestrial television (DDT), namely for the digital signal to be converted to be received by the old analogue televisions. The next phase would have been to upgrade to test for direct to home (DTH) signals, namely for the satellite processing units, such as the DSTV decoders. However, this phase had not been implemented. The SABS would need to invest a further R10 million to upgrade to be able to test for the DTH signals.

The laboratory had tested four companies at the opening of the laboratory to supply set-top boxes. Subsequently, the laboratory has remained unused due to delays in the roll-out of the set-top boxes as part of the digital migration process. Whereas the business model had been that the DOC would initially fund 75% of the SABS' operations in a down-scaled manner for it to do routine quality assessments on the GoDigital mark, which should have a regular stream of income. However, the laboratory continued to incur costs over the last three years related to accreditation, maintaining software licences and equipment, while it generated no income at the SABS' expense over the last two years.

The SABS had decided to suspend the accreditation, which expired at the end of March 2020. Maintenance or restoration of the accreditation would require it to have the requisite skills, equipment and software in a working condition. Therefore, the SABS needed to decide whether to maintain the laboratory in the absence of clear policy decisions in terms of the GoDigital stamp and the requirements for the set-top boxes or to mothball it, which would lead to fruitless

and wasteful expenditure for the DOC due to its policy failure. If the laboratory was mothballed, the DOC would need to be engaged in terms of the disposal of the equipment. However, the laboratory could be revived but would require a software upgrade.

3.2.2.3.4. Cement laboratory

The laboratory tests cement products for its compressive strength and setting time, among others, with samples for each product on the market being required to be sent to the SABS every two months. It does this by curing the cement for at least 28 days under specific conditions to ensure the accuracy of its test results. It currently received about 60 samples per month but only had capacity to test 32 samples at a time. Hence it would normally have a backlog.

The cement laboratory had been earmarked for improvements including the sample management, the processing and the conditions of the laboratory for the workers. It had invested in a localised HVAC unit, as the plant room had not provided sufficient conditions for the laboratory. However, it was still reliant on the electricity grid to operate the laboratory effectively. With new equipment that was being procured, it expected that it could expand its capacity to test 90 samples at a time. Furthermore, the SABS intended to automate the laboratory with robotic arms, which would also reduce the turnaround time to 32 days.

The SABS noted that one of the laboratory's key challenges was the impact of electricity supply challenges due to cable theft and load shedding, as the test results were highly dependent on the correct humidity levels to cure the cement. When the electricity supply is disrupted, these conditions are affected and it takes at least two days for these conditions to be restored for a sample to be tested accurately. This has led to a backlog in the testing of samples, as the laboratory lost a minimum of 28 weeks due to electricity supply challenges. To address this, the SABS was considering taking critical laboratories off the grid and looking at options to also increase its energy efficiency.

While cement is a regulated product requiring a SABS certification mark and a LOA from the NRCS, cement is still entering the country without these. The SABS emphasised that this was an illegal activity, as all cement should be going through this process.

3.2.2.3.5. Chromatographic laboratory

The chromatographic laboratory was one of the SABS' fully functional laboratories. It tested for chemical residues from pesticides in food crops. This was in support of registration applications (about 70% of the business) to set a maximum allowable load for the use of the pesticide and to monitor fruit and vegetable products to ensure that they comply with the maximum allowable load levels.

3.2.3. Standards

The facilitation of the development of SANS is the SABS' core public good service. The SANS are voluntary industry standards that support the public and private sectors, as well as consumers. The purpose of relevant national standards is to address market needs, support and enable socio-economic and environmental objectives, industrial policy, innovative and competitive industries and facilitate trade. The Division also provides strategic collaboration and leadership in regional and international standardisation forums to support the implementation of the African Continental Free Trade Area (AfCFTA) and drive national development priorities through the harmonisation of standards. The SABS highlighted that South Africa was a member of six regional and international standards bodies, had a collection of over 7 400 SANS, published 200 SANS annually, managed more than 200 committees and facilitated over 1 700 experts.

The process of developing a SANS involves stakeholder engagement and the participation of experts from the public and private sector. This is administered through an open, transparent and consensus process through various technical committees, sub-committees and working groups. The SABS technical and subcommittees have a stakeholder representation which includes Industry Associations, Regulatory bodies, and Academia, amongst others.

The Standards Division identified a number of challenges it was experiencing, namely:

- The need for enhanced engagement and implementation of standardisation solutions in industrial priority sectors.
- Inadequate strategic focus on regional and international standardization engagements and influence at technical and strategic forums.

- Limited understanding by policy makers and regulators on the strategic value of standardization, implementation of SANS and conformity assessment services.
- Inadequate SABS value chain standardisation approach; thus using the SANS developed efficiently within conformity assessment and laboratory services, as well as training on standards.
- Limited functionality and integration of current ICT tools to support efficient processes and stakeholder engagement and meet the needs of future standardisation deliverables.

Its key priorities within the Turnaround Plan until March 2020 were to:

- Map and prioritise Technical Committee work to provide SABS leadership on industrial policy priorities and key priorities for SABS revenue potential and growth. This involved (i) segmentation of the SANS catalogue to Industrial priority sectors; (ii) creation of a matrix of policy objectives per government department including mapping to SANS referenced in regulations; (iii) standards roadmaps in agro-processing, 4IR, Tourism and Mining sector; and (iv) Management System Standards identified for potential Certification schemes in support of diversifying the portfolio of services in SABS Certification.
- Convene Technical Committee 184 on Automation Systems.
- Fast-track business plan model for Training.
- Develop clear framework for work on AfCFTA for the development and harmonisation of standards to facilitate trade across the African continent.

3.2.4. Certification

The SABS' Certification Division offers conformity assessment services for management systems, processes, products or services to ensure that these meet the relevant standards and fulfil the relevant requirements. It is also responsible for verifying local content, inspecting consignments and vehicle test stations. Voluntary certification assists business in improving its global market access opportunities by assuring that the business' systems, processes, products or services meet the quality and/or safety requirements stipulated in the relevant standard.

The Division's key short-term priorities were to:

- Operationalise its new organisational structure to improve operation excellence with emphases on the centralization of activities as part of the back office, while other team members will be focusing on client retention and cultivating of new markets.
- Manage client relations and generate revenue by implementing key account management and a new product development function; increasing customer and industry association interface; multiskilling and repurposing staff, specifically auditors to also be able to execute local content verification; and standardising client on-boarding.
- Ensure operational excellence by implementing an integrated certification and sample management system and sourcing an audit management system.

3.2.5. Information and Communication Technology

The SABS reported that a review of current ICT business architecture, systems and capabilities was underway. A new interim ICT structure had been put implemented with assigned responsibilities for architecture, IT systems and environment, technical systems, operational technology and business information. The work was being undertaken with the support of an expert consultant. The interim structure would report to the Acting CEO.

It noted that some accreditation was hinged on the need for appropriate ICT systems. Furthermore, there was a need to effectively integrate systems to ensure that business processes ran efficiently and for effective sample management.

3.2.6. Labour relations

The SABS reported that its head count was 878 employees, including employees on fixed term contracts. Of these, 605 (68,9%) were in the frontline divisions, namely Standards, Certification and Laboratory Services. It had been conducting a workforce analysis exercise to determine the correct staff levels/numbers required to run the business under the current conditions, as one of the measures to reduce costs.

Over the years, the SABS had been offering competitive salaries and good benefits to its employees to attract and retain skills and talent. The benefits include medical aid, retirement benefits, life cover, a housing subsidy, and 13th cheque. However, the current negative outlook has made it difficult for the SABS to continue to attract and retain skills. This was evidenced

by 59% of the 59 terminations at the end of December 2019 being resignations of staff from the core skills areas, namely test officers, auditors, and standards writers.

A further challenge was the composition of aging staff, as a further 16,9% of terminations were retirements. To address the loss of skills, the SABS was focusing on youth employment through a structured Graduate Recruitment and Development Programme. In November 2019, it placed 19 graduates on a two-year contract across different areas of the business.

It had also identified mission critical positions to be filled to support the revenue generation and turnaround efforts. This has led to 55 positions being filled at the end of December 2019.

Furthermore, it has offered training and development opportunities for all employee categories to increase competency levels and to build skills of the current employees. For the 2019/20 financial year, the focus had been on Technical Training, Health and Safety and Leadership Development.

The SABS is a unionised environment with National Education, Health and Allied Workers' Union membership of 569 employees. Over the past two years, the relationship with organised labour had improved significantly, attributed to regular engagements between the parties. While the 2019 salary increases were determined at a centralized bargaining level and have been implemented, negotiations on benefits reached a deadlock with a strike notice being issued by the Commission for Conciliation, Mediation and Arbitration. The matter had been escalated and was being handled by the DTI’s Director-General, Mr L October.

In addition, there was a pending dispute by junior and middle management against the Employer, as a direct consequence of a 2013 decision to award additional benefits to employees in the bargaining unit. This created overlaps in salaries of junior staff with those of their managers. The SABS had created a platform to regularly engage with this level of management to rebuild trust and gain confidence in the new leadership. This process is ongoing and has yielded positive results thus far.

As part of its turnaround plan, the SABS would conduct a skills audit by the end of the financial year to inform current and future skills requirements. It would also conduct an Organisational Review exercise to determine the correct operating model and structure. This would inform the

right sizing and rationalization plans, as part of reducing the salary bill. In addition, it had been reviewing and processing institution-wide policies to strengthen the governance and control environment.

It had also reported that the terms of employment had been revised. This now included revised clauses pertaining to termination and restraint of trade to address employees leaving the employment of the SABS and then immediately entering into the market as a direct competitor of the SABS in their respective fields of expertise.

3.3. Audit findings

In the 2018/19 financial year, the SABS had received a qualified audit opinion. According to the Auditor-General, the main reasons for the qualification on the consolidated financial statements had been:[32]

- *Property, plant and equipment*: The entity had incorrectly accounted for a prior period error related to upgrades, renovations and improvements to buildings as separate assets and had not capitalised these to the cost of the buildings in accordance with International Accounting Standards 16, Property, plant and equipment. This had impacted on the buildings being depreciated over incorrect useful lives, causing a material misstatement to the carrying amount of buildings. Additionally, there had been an impact on the loss for the year and accumulated profit.
- *Revenue from laboratory services*: There had been insufficient appropriate audit evidence that revenue from laboratory services for the 2018/19 and 2017/18 financial years had been properly accounted for. This had been due to the sequencing of the various registers that record the initiation of the product and witness testing, which resulted in revenue from laboratory services. Therefore, it was unclear whether any adjustment to the stated revenue from laboratory services had been necessary. Additionally, there had been an impact on the loss for the year as well as on the accumulated profit.
- *Revenue from subscription fees for Standards*: The entity had not recognised revenue as and when the entity had satisfied a performance obligation in accordance with International Financial Reporting Standards 15, Revenue from contracts with customers. This had been in relation to the split between the revenue received in the current year and income received

[32] Portfolio Committee on Trade and Industry (2019)

in advance from these subscription fees that covered periods extending across two financial years. This would have impacted on the loss for the year and accounts payable as well as on the accumulated profit.

- *Irregular expenditure*: There had been insufficient appropriate audit evidence that all irregular expenditure incurred had been identified and disclosed as required by section 55(2)(b)(i) of the Public Finance Management Act (Act No. 1 of 1999). This had been because the entity did not have an adequate system for identifying all irregular expenditure.

The Auditor-General had also noted three emphasis of matters related to (i) contingent liabilities resulting from alleged negligence in testing products and labour related claims against it; (ii) material losses of R35,4 million as a result of the write-off of irrecoverable trade receivable; and (iii) errors from prior periods.

In its presentation, the SABS noted that 74% of the audit findings had been resolved, with 21 in progress. It had resolved the findings in relation to property, plant and equipment, and irregular expenditure. The remaining findings related to resolving the issues around ascribing revenue for subscription fees in the appropriate financial year (targeted for completion by mid-February); completeness of revenue from laboratory services; and the inter-company loan, which had been expected to be completed before the financial year end.

3.4. Other issues

3.4.1. Restoration of International Automotive Task Force (IATF) accreditation

The SABS had reported that it had lost its IATF accreditation in 2018. The IATF scheme requires that specific resources and capacity are dedicated exclusively to it. In a constrained environment, the SABS indicated that it did not have sufficient capacity to implement all the requirements of the scheme. This in part was due to the relatively low volume of clients in South Africa which made maintenance of dedicated resources difficult. In order to re-apply, the SABS had to demonstrate that it has the capacity to manage the scheme in line with the requirements of the IATF. In preparation for possible re-application when the SABS was able to invest in the maintenance of the scheme capacity, it was embarking on developing a training and scheme implementation intervention which would support South African suppliers into the automotive value chains. This would be to implement the International Organization for Standardization's technical specification for a quality management system in the automotive

industry (ISO/TS 16949) in their operations. The former Minister, Dr R Davies, had sent correspondence to the IATF indicating that South Africa wished to re-enter the scheme but the said correspondence was never responded to, as far as the SABS was aware.

3.4.2. Business case for SABS

The Committee had questioned whether there was a business case for the SABS. The SABS indicated that it had a good business case. This was particularly in the areas of certification, as it had the largest pool of auditors amongst all certification bodies operating in South Africa. It was accredited by the International Accreditation Forum which is the world association of Accreditation bodies. Furthermore, it had the largest network of certified laboratories with test signatories in the country and it owned the only independent test facility for power utilities and the electro-technical industry on the continent. In addition, it was the holder of the SABS Mark Scheme.

4. Concluding remarks:

Based on its deliberations, the Committee drew the following conclusions:

4.1 The Committee welcomed the progress made with the implementation of the NRCS' turnaround strategy. It requested that the NRCS should continue to update it on the progress made and challenges encountered on a quarterly basis.

4.2 However, the Committee remained concerned by the delays in implementing the ICT Modernisation Project. The Committee noted the appointment of an ICT consultant to assist the NRCS in the development, management and implementation of the ICT Modernisation Project. It urged the NRCS to fill the critical, funded vacancies necessary to ensure that this Project could be effectively implemented.

4.3 Furthermore, the Committee remained concerned about the NRCS' financial reporting given the findings raised by the Auditor-General and that the Chief Financial Officer had resigned. It encouraged the NRCS to fill this vacancy urgently to resolve its financial reporting challenges.

4.4 The Committee welcomed the implementation of the Enterprise Resource Planning to resolve financial system deficiencies. It requested the NRCS to monitor the implementation process to ensure that these deficiencies were fully resolved by March 2021.

4.5 The Committee was concerned by the challenges expressed by the Legal Metrology Division regarding its laboratories' conditions. Currently, the laboratories were not ideally located and had challenges in terms of lighting and the effects of gravity, as well as the impact of electricity supply disruptions, which could affect the accuracy of its test results.

4.6 In terms of the SABS, the Committee remained concerned about its financial sustainability and its ability to re-establish itself as a preferred certification and testing service provider, particularly in areas where it competed commercially. Nevertheless, the Committee was encouraged by the progress on the Turnaround Plan thus far but acknowledged that there were still significant challenges to be addressed to stabilise the institution.

4.7 The Committee welcomed the improvements made to the plant room; however, it was of the view that the SABS should urgently prioritise the replacement of its network of auxillary pipelines to ensure that the efficiencies gained in the plant room could be transferred to the campus to ensure that appropriate laboratory conditions are maintained.

4.8 The Committee welcomed the SABS' approach to seek strategic partnerships to develop and maintain its prioritised laboratories. This could assist in addressing the financial constraints facing the institution and in securing revenue.

4.9 The Committee was concerned by the lack of clear policy direction by the Department of Communications, which had led to the establishment of the set-top boxes laboratory that has not been utilised over the last three years.

4.10 The Committee noted the lack of capacity within the cement laboratory, which was exacerbated by delays due to electricity supply disruption. It was encouraged by the procurement process for new equipment that would increase the laboratory's capacity

from processing 32 monthly samples to 90 monthly samples. However, there is a need to consider establishing an independent electricity supply for the laboratory to mitigate against the impact of continuous disruptions on the accuracy of its testing results.

5. Acknowledgements

The Committee would like to thank the management of the National Regulator for Compulsory Specifications and the South African Bureau of Standards for their cooperation and transparency during this process.

The Committee also wishes to thank its support staff in particular the committee secretaries, Mr A Hermans and Mr T Madima, the content advisor, Ms M Sheldon, the researcher, Ms Z Madalane, and the committee assistant, Ms Y Manakaza, for their professional support and conscientious commitment and dedication to their work. The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

Report to be considered

References:

National Regulator for Compulsory Specifications (2016a) *Presentation to the Portfolio Committee on Trade and Industry on the Presentation on the Risk-Based Approach, 14 September 2016*.

National Regulator for Compulsory Specifications (2016b) *LOA Turnaround Plan for the 2016-17 Financial Year, 02 December 2016*.

National Regulator for Compulsory Specifications (2019) *NRCS plan to address the audit qualification*.

National Regulator for Compulsory Specifications (2020a) *NRCS – Presentation to the Portfolio Committee on Trade and Industry Site Visit Pretoria, 5 February*.

National Regulator for Compulsory Specifications (2020b) *NRCS Response to Portfolio Committee on Trade and Industry, 18 February*.

Portfolio Committee on Trade and Industry (2019) *Budgetary Review and Recommendation Report of the Portfolio Committee on Trade and Industry, dated 17 October 2019*.

South African Bureau of Standards (2019a) *Presentation to the Portfolio Committee on Trade and Industry – 06 March 2019*.

South African Bureau of Standards (2019b) *Update on the SABS Turnaround Plan Presentation to the Portfolio Committee on Trade and Industry, 26 November 2019*.

South African Bureau of Standards (2020) *Presentation to the Portfolio Committee on Trade and Industry, 4 February 2020*.