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

The Portfolio Committee on Trade and Industry, having assessed the service delivery performance of the Departments of Economic Development (EDD) and of Trade and Industry (DTI), against its mandate and allocated resources, namely the financial and non-financial resources for the period 1 April 2018 to 30 June 2019, reports as follows:

1. INTRODUCTION

The State of the Nation Address sets out the national policy priorities over the Medium-Term Strategic Framework (MTSF), which is then translated into departmental strategic and annual performance plans (APP) and allocated financial resources to implement these plans. After the 2019 elections, the President, Mr M C Ramaphosa, announced the reconfiguration of government to promote coherence, better coordination and improve efficiency. This included a merger between the Ministries of Trade and Industry and of Economic Development. Furthermore, the EDD's role in terms of infrastructure coordination would be relocated to the new Ministry of Public Works and Infrastructure. This merger is expected to be completed for the next budgetary cycle.

The key policy priorities that the DTI and the EDD contribute towards are inclusive economic growth and job creation to address the triple challenges of poverty, inequality and unemployment. The DTI is primarily responsible for developing an enabling environment for industrial development that drives strategic regional and international trade and attracts direct investment to create sustainable jobs. Furthermore, it enables inclusive economic growth through its Broad-Based Black Economic Empowerment (B-BBEE) policies, the decentralisation of the industrial base through the development of Special Economic Zones (SEZs) and the revitalisation of Industrial Parks. It also plays a critical role in developing and implementing policies to ensure fair regulatory environment for business and consumers and to reduce the cost of doing business.

The EDD is responsible for playing a coordinating role between government departments, state entities and civil society to effect economic development. It also works on interventions to improve alignment between economic policies and the plans of the state and its agencies to ensure the achievement of government's economic objectives.

1.1. Mandate of the Committee

Section 5 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) requires the National Assembly, through its committees, to annually assess the performance of each national department over an 18-month period. A committee must submit a report of this assessment known as a Budgetary Review and Recommendation (BRR) Report. The overarching purpose of the BRR Report is for the committee to make recommendations on the forward use of resources to address the implementation of policy priorities and services, as the relevant department may require additional, reduced or re-configured resources to achieve these priorities and services. This Act gives effect to Parliament's constitutional power to amend the budget in line with the fiscal framework. The BRR Report process enables the Committee to exercise its legislative responsibility to ensure that the DTI, the EDD and their entities are adequately funded to fulfil their respective mandates.

1.2. Purpose of the BRR Report

The purpose of this report is to analyse the financial and non-financial performance of the DTI and the EDD, and identified entities, against predetermined objectives to inform recommendations for their forward-looking budgets. This report assesses performance for the 2018/19 financial year, and the first three months of the 2019/20 financial year, namely from 1 April 2018 to 30 June 2019 within the context of the three-year Medium-Term Expenditure Framework.

1.3. Method

The Committee met with the Office of the Auditor-General (AG) on 8 October 2019 to discuss the audit outcomes for the 2018/19 financial year. The Committee was also briefed by the DTI and the EDD on their 2018/19 annual reports and their performance for the first quarter of the 2019/20 financial year.

The DTI has 13 listed entities, while the EDD has four listed entities. All entities should be robustly reviewed and engaged with on their financial and non-financial performance. Notwithstanding this, the Committee only considered the performance of the National Regulator for Compulsory Specifications (NRCS) and the South African Bureau of Standards (SABS), entities of the DTI. The

Committee was unable to consider all 17 entities because of the time constraints to conclude this report. The NRCS had been selected due to the negative audit outcomes it had received on an ongoing basis over the past six financial years; while the SABS had received a qualified audit opinion for the 2018/19 financial year. On 9 October 2019, the Committee met with the NRCS and the SABS to engage on their 2018/19 Annual Reports and their financial and non-financial performance for the first quarter of the 2019/20 financial year.

1.4. Limitations of the report

One of the key limitations of this report is that, in addition to the two departments, only two entities' annual reports and quarterly spending trends were considered for the 15-month period. Therefore, there was a reliance on the EDD, the DTI and the AG to highlight challenges experienced by the other 15 entities. The AG had audited the two departments and ten of its entities. Of the ten entities, eight received unqualified opinions without any findings, namely: the Companies and Intellectual Property Commission (CIPC), the Companies Tribunal, the Competition Commission, the Competition Tribunal, the International Trade Administration Commission of South Africa (ITAC), the National Credit Regulator, the National Gambling Board, and the National Lotteries Commission (NLC).

It should be noted that the Export Credit Insurance Corporation, the Industrial Development Corporation (IDC), the National Consumer Commission, the National Consumer Tribunal, the National Empowerment Fund (NEF), the National Metrology Institute of South Africa and the South African National Accreditation System (SANAS) are audited by external auditors. All of these seven entities received unqualified audit opinions with no findings, namely clean audits.

In addition, the BRR Report is intended to cover an 18-month period including the previous financial year's annual report and the first six months (April to September) of the current financial year. Due to the timing of the BRR Report, second quarter financial and non-financial information were not available. The key challenge was that the DTI, the EDD and their entities were still in the process of compiling the preliminary performance information, which must be submitted to the Department of Planning, Monitoring and Evaluation and the National Treasury by the end of October. The verified information would only be available in January of the following year. Therefore, the report has only captured performance up to the first quarter of the 2019/20 financial year.

1.5. Outline of the contents of the report

This BRR Report consists of the introduction (Section 1) and four parts. Section 1 briefly provides an overview of the core functions of the DTI and the EDD, the mandate of the Committee, the purpose of this report and the method followed in preparing this report, as well as the limitations of the report.

Part A and Part B focuses on the assessment of the EDD and the DTI respectively for the period under review. Sections 2 and 5 set out the key policy focus areas for the departments. This includes an overview of their strategic objectives and mandate. Sections 3 and 6 provide a summary of the key financial and non-financial performance recommendations of the Committee as captured in its previous BRR Report and its 2019/20 Budget Report, as well as the progress made in terms of these where information is available. Sections 4 and 7 assess their financial and non-financial performance against their vote allocation from 1 April 2018 to 30 June 2019. This covers their service delivery and 2018/19 budget vote allocation against the actual expenditure, as well as the audit findings and human resource management, for the period ending 31 March 2019. This is followed by a comparison of their budgeted and actual expenditure as at 30 June 2019. These sections also outline key issues raised by the Committee during deliberations with the departments.

Part C considers the financial and non-financial performance of the NRCS and the SABS for this BRR reporting period in terms of their mandates and strategic objectives. In addition, its financial and non-financial performance and its additional forward-looking budgetary and/or performance requirements are assessed. This is covered in Sections 8 and 9.

Part D consists of Sections 10 to 12. Section 10 provides the Committee's concluding remarks followed by a note of appreciation in Section 11. Section 12 then concludes with the Committee's recommendations for the National Assembly's approval.

PART A: FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE ECONOMIC DEVELOPMENT DEPARTMENT

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

The EDD's strategic objectives, which guide its work, are as follows[1]:

- Ensuring good governance in the administration of the Department;
- Coordinating jobs drivers and the implementation of the New Growth Path (NGP) economic strategy in support of the National Development Plan (NDP);
- Facilitating social dialogue and the implementation of social accords;
- Coordinating infrastructure development and strengthening its positive impact on the economy and citizens; and
- Promoting productive investment, industrial financing and entrepreneurship for jobs and inclusive growth.

It should be noted that the EDD's role of coordinating infrastructure development and housing the Presidential Infrastructure Coordinating Commission (PICC) is being relocated to the Ministry of Public Works and Infrastructure.

In terms of its core functions, the EDD is responsible for overseeing four listed entities and administering three Acts[2]. In addition to overseeing the EDD, the Committee oversees these entities, as a number of the EDD's strategic objectives are implemented through these entities, namely the:

- Competition Commission,
- Competition Tribunal,
- IDC, and
- ITAC.

3. SUMMARY OF PREVIOUS KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

3.1. 2018/19 BRR Report recommendations

The Portfolio Committee on Economic Development in the fifth Parliament recommended that the Minister of Economic Development and the Accounting Officer should consider:[3]

3.1.1. The recommendations of the former Committee in the 2016/17 Budget Vote Report on the strengthening of institutional arrangements and provide a progress report on these to Parliament by the next Budget Vote cycle.

3.1.2. Working expeditiously to ensure a smooth transition of leadership at the Competition Tribunal and to submit a progress report in this regard.

3.1.3. Conducting an extensive review of the enterprise development funds that were within its purview and briefing the former Committee on its outcomes.

3.1.4. Facilitating collaboration between the IDC and the Council for Scientific and Industrial Research (CSIR) Innovation Hub to enhance the support for the CSIR projects.

3.1.5. Monitoring and supporting the Competition Commission in addressing issues raised by the AG in the regulator's financial statements.

3.1.6. Enhancing their oversight and scrutiny over the finances of the Competition Commission.

Furthermore, the former Committee made the following recommendations with respect to the entities: [4]

3.1.7 Industrial Development Corporation should consider:

- Developing plans and targets to support enterprises owned by people with disabilities.
- Providing detailed quarterly updates on plans and progress being made to protect Scaw, Foskor and the Small Enterprises Finance Agency from further losses.
- Developing a comprehensive strategy to ensure that its assets at the Shiva mine were not damaged by vandalism before the end of the 2018/19 financial year and providing regular updates on the Shiva Uranium Mine court case, jobs and security at the mine.

3.1.8 Competition Commission should consider:

- Taking measures to improve its planning and budgeting capacity so as to align its expenditure demands with available financial resources.

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[1] EDD (2019a)

[2] EDD (2019a)

[3] Portfolio Committee on Economic Development (2018)

[4] Ibid

- Presenting its proposal for a sustainable funding model.
- Briefing the former Committee on the outcome of its engagements with the National Treasury and the AG on supply chain management processes and procedures that will be appropriate its unique needs before the end of the 2018/19 financial year. Furthermore, for the National Treasury to brief the then Committee on the procurement processes that the Commission is expected to follow for its sector-specific needs before the third quarter of the 2018/19 financial year.
- Updating the former Committee on progress made in the finalisation of the Memorandum of Understanding between itself and the National Prosecuting Authority on how they will work together to implement the criminal provisions of the Competition Act (No. 89 of 1998), as amended, against hard core cartels and reporting to the then Committee on progress before the end of the 2018/19 financial year.
- Conducting a desktop benchmarking study on the fees charged by different competition experts in other countries.
- Presenting on the findings of the State Security Agency (SSA) in relation to the Commission's need for and the utilisation of protection services, as soon as the SSA finalised its report.

3.1.9 Competition Tribunal should consider:

- Closely monitoring its performance against predetermined targets and to reach at least 90 percent when it gets additional capacity in accordance with the proposed legislation.
- Improving its internship and outreach programmes to help address transformation challenges in the competition policy sector.

3.1.10 International Trade Administration Commission of South Africa should consider:

- Intentionally employing people with disabilities.
- Reporting on progress made on the finalisation of the Price Preferential System (PPS) on the exportation of ferrous and non-ferrous scrap metal recommendations before the end of the 2018/19 financial year.
- Reporting on the expenditure budget for its Southern African Customs Union (SACU) operations.

3.2. 2019/20 Committee Budget Report

The Portfolio Committee on Trade and Industry in the sixth Parliament recommended that the Minister of Trade and Industry should consider:

3.2.1. "Requesting the International Trade Administration Commission of South Africa to investigate the appropriateness of the applied tariff rate for sugarcane products."[5]

4. OVERVIEW AND ASSESSMENT OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE FOR THE PERIOD 1 APRIL 2018 TO 30 JUNE 2019

This section provides a comparison between what the EDD targeted in its APP against its performance as set out in the Annual Report for the 2018/19 financial year, as well as the first quarter of the 2019/20 financial year. Furthermore, it outlines other areas of performance, mainly internal administrative areas that the EDD is required to report on. It then provides an overview of the AG's audit outcomes. Lastly, it highlights the key issues raised during the Committee's deliberations.

4.1. Overview and assessment of the Department's financial and non-financial performance for the 2018/19 financial year[6]

4.1.1. Non-financial performance

For the 2018/19 financial year, the EDD had 23 performance targets as outlined in its APP. The EDD achieved or exceeded all of its performance targets over the 2018/19 financial year and produced 196 products against a target of 182 over this period. These products mainly consist of reports of engagements between stakeholders and reports of various sector initiatives.

The EDD coordinates economic growth and development initiatives, which sits across various departments' mandates. Some of the achievements it had highlighted were:

- In 2018, there had been the highest inward foreign direct investment (FDI) since 2013 of R71 billion.

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

[6] EDD (2019a)

- It had facilitated, fast tracked or unblocked 8 investment initiatives, including:
  - The establishment of a training centre at Highveld Steel, at which Afgri had trained 53 micro farmers during the 2018/19 financial year.
  - Assisted Ceetar Automations (Pty) Ltd to strengthen its chalk product to allow its continued operations.
  - Facilitated the inclusion of Pavati Packaging (pallet wraps) and Advance Brushware (producer of cleaning equipment) in the Massmart supplier chain at Fruitspot Stores and Builders Warehouse, respectively.
- Supported 1 323 small businesses in accessing financial and non-financial support measures by facilitating engagements with government institutions within provinces.
- Extended the PPS for the exportation of ferrous and non-ferrous scrap metal and laid the groundwork to introduce an export tax on scrap metal to support the local steel industry.

While the EDD met all its performance targets in terms of coordination among the various economic stakeholders and sector initiatives for the purpose of improving economic growth and creating jobs, the impact on the economy remained minimal. Measuring the impact of economic indicators such as employment, economic growth, and investment as reported by the EDD against targets set by government, it is evident that the EDD's outcomes are insufficient to meet government's broader targets as depicted in the table below.

Table 1: Performance against key government targets

Framework target	Employment	Unemployment	GDP[7] growth	Investment as a percentage of GDP
NDP by 2030	11 million	6%	5%	30%
NGP by 2020	5 million	15%	4-7%	N/A
MTSF by 2019/20	6 million (EPWP[8])	14%	5%	25%
Actual 2018/19	**- 86 000**	**27,5%**	**0,8% (2018)**	**R70,6 billion**
April 2014 – March 2019	**1 237 000**	**26,5%**	**1,1%**	**R219,1 billion**

Source: EDD (2019a), Mbelekane (2018) and Statistics South Africa (2019)

4.1.2. Financial performance

The appropriation for the EDD was R1,0 billion for the 2018/19 financial year. This budget increased by 9,4 percent in nominal terms compared to the 2017/18 financial year when the appropriation was R914,2 million. The EDD had three programmes, namely:

- Programme 1: Administration;
- Programme 2: Growth Path and Social Dialogue; and
- Programme 3: Investment, Competition and Trade.

Table 2: Financial performance by programme for the 2018/19 financial year

Programme name (R'000)	2017/18 Actual expenditure	2018/19			
		Adjusted appropriation	Final appropriation	Actual expenditure	Under expenditure
Administration	83 666	86 351	87 759	86 619	-1,30%
Growth Path and Social Dialogue	31 126	34 495	30 502	30 158	-1,13%
Investment, Competition and Trade	797 258	951 751	954 336	927 233	-2,84%
Total	**912 050**	**1 072 597**	**1 072 597**	**1 044 010**	**-2,67%**

Source: EDD (2019a)

The EDD also received revenue of R284,9 million from the sale of goods and services (R49 000); penalties imposed on the construction industry in terms of the Voluntary Rebuilding Programme

[7] Gross Domestic Product

[8] Expanded Public Works Programme

Settlement Agreement for the Tirisano Fund (R234 million); interest, dividends and rent on land (R50,8 million); and other receipts (R55 000).

A total amount of R28,5 million had not been spent. The EDD reported that the under-expenditure of approximately 1,3 percent in the Administration Programme was as a result of resignations in the last quarter. In addition, the variance in the Investment, Competition and Trade Programme was attributable to an allocation surplus attributable to the Tirisano Construction Fund, as the construction companies had not contributed the full amount during the financial year.

4.1.2.1. Expenditure by category

The expenditure was comprised of mainly transfers and subsidies (R911,2 million) and compensation of employees (R91,1 million). Compensation of employees accounted for approximately 9 percent of the total budget. This bodes well for service delivery as the largest share of the budget had been channelled towards implementation which mainly takes place within the entities of the EDD. Expenditure on goods and services and on payment for capital assets had been R40,9 million and R823 000 respectively. Transfers to entities and subsidies accounted for 87 percent of the total expenditure.

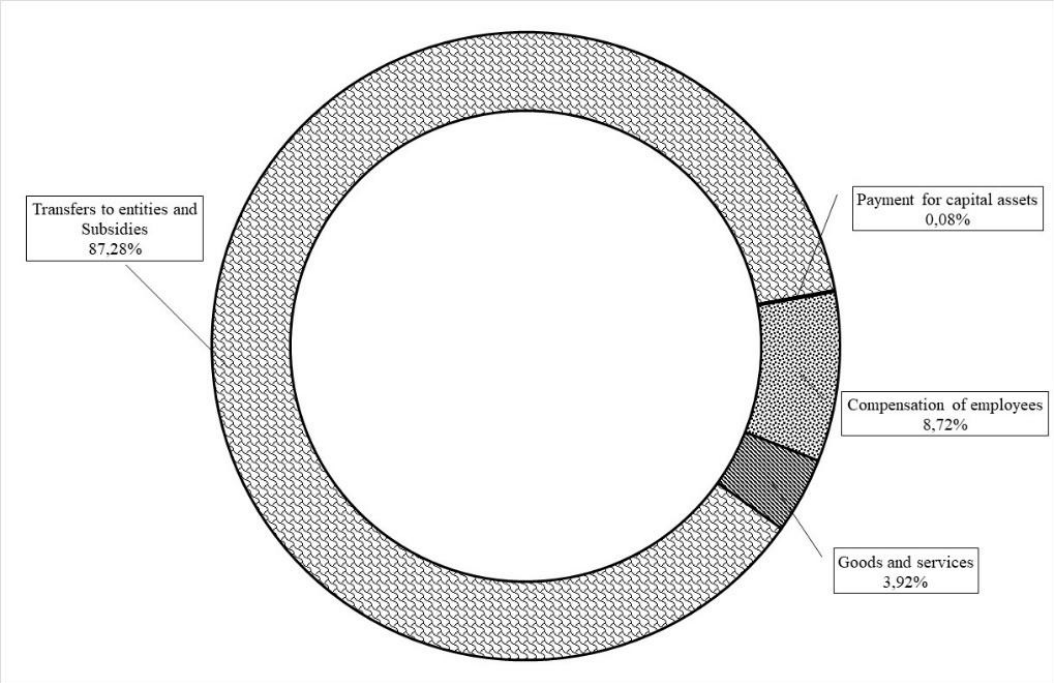

Figure 1: Expenditure by economic classification for the 2018/19 financial year
Source: EDD (2019a)

4.1.2.2. Transfers to EDD entities

The work of the EDD extends through the four entities that it oversees. Of the four entities, the IDC is the only self-funded entity within the EDD. However, it also administered certain funds on behalf of the EDD.

In the 2018/19 financial year, approximately R423,5 million was transferred to the entities with the ITAC receiving R4,9 million more than its adjusted budget allocation. An additional R487,4 million was transferred to the IDC for the Small Enterprise Finance Agency (228,8 million) and to administer the Tirisano Construction Fund, which had a shortfall of R26,4 million. This shortfall or surplus resulted in a lower transfer than budgeted for.

Table 3: Transfers to entities for the 2016/17 to 2018/19 financial years

Name of public entity	Amount transferred (R'000)		
	2016/17	2017/18	2018/19
Competition Commission	208 541	263 354	281 788
Competition Tribunal	20115	30 041	35 086
Industrial Development Corporation	213 124	385 780	487 484
International Trade Administration Commission	87 001	99 065	106 584
Total	**528 781**	**773 240**	**910 942**

Source: EDD (2019a) and National Treasury (2019)

4.1.3. Audit outcomes

The AG annually conducts an audit assessment of the EDD's reported financial and non-financial performance information. In terms of non-financial performance, the following programmes were assessed to determine whether their reported performance information was useful and reliable:

- Programme 2 - Growth path and social dialogue
- Programme 3 - Investment, competition and trade

The outcome of this assessment was that the AG "did not identify any material findings on the usefulness and reliability of the selected programmes"[9].

In terms of the EDD's financial reporting, the AG noted that the EDD had obtained an unqualified audit opinion with no findings. However, the AG noted that the EDD had irregular expenditure of R214 000 by the end of the financial year. This included irregular expenditure of R49 000 that had been incurred during the 2018/19 financial year, due to non-compliance with the National Treasury instruction note on travel contracts. This had been under investigation at the time. The remainder of the irregular expenditure (R195 000) had been awaiting condonation from prior financial years.

There had also been wasteful and fruitless expenditure incurred of R1 000 due to interest incurred on late payment of overtime for the current financial year. There was also an outstanding loss of R1,05 million due to non-compliance with the EDD's performance policy. The responsible official had been dismissed upon conclusion of the disciplinary hearing.

4.1.4. Human resources

For the 2018/19 financial year, the EDD had a total of 116 posts of which 13 had not been filled by 31 March 2019. The majority of vacancies were at the senior management (7 posts) and highly skilled supervisory levels (5 posts). It should also be noted that two appointments were made outside of the organisational structure resulting in 105 employees as at 31 March 2019. The table below shows employment and vacancies per programme.

Table 4: Human resources by programme as at 31 March 2019

Programme	Number of approved posts	Number of posts filled	Vacancy rate
Administration	71	60	15,4%
Economic Policy Development	17	15	11,8%
Economic Planning and Coordination	20	20	0
Socio Economic Development and Social Dialogue	8	8	0
Total	**116**	**103**	**11,2%**

Source: EDD (2019a)

Table 5: Employment equity breakdown as at 31 March 2019

Racial Breakdown	Male	Female	Total
African	36	58	94
Coloured	1	3	4
Indian	2	1	3
White	1	3	4
Total	**40**	**65**	**105**

Source: EDD (2019a)

In terms of employment equity, 92,4 percent of employees were black, 61,9 percent were female and 2,9 percent were people with disabilities (3 employees). At senior management service level, 86,2 percent were black and 51,7 percent were female.

During 2018/19 financial year, there had been one contract senior management appointed and 16 terminations with a turnover rate of 14 percent. The reasons for the terminations were ten resignations, three contracts expired, one dismissal for misconduct and two transfers to other public service departments.

[9] EDD (2019a: 98)

There had been one disciplinary hearing conducted for the financial year, which had led to a dismissal. Furthermore, 24 grievances had been lodged, with 21 being resolved by 31 March 2019.

4.2. Financial and non-financial performance as at 30 June 2019

4.2.1. Non-financial performance

The EDD had eight targets for the first quarter of the 2019/20 financial year and achieved six of these targets. However, it had achieved a product under one of the annual targets that had not been due in the quarter under review, namely a report on the sale of Highveld Structural Steel to ArcelorMittal South Africa (AMSA) under key performance indicator 12: "Number of reports on initiatives to increase localisation in the infrastructure and industrialisation programmes, including through the PPPFA, and local supplier development". It had also highlighted the following achievements:

- It had acted as an arbitrator to successfully conclude the sale of Highveld Structural Steel Mill to AMSA resulting in the retention of 220 jobs.
- It had facilitated the resolution of a water supply challenge experienced by Goldie Chickens processing plant in the Lekwa Local Municipality in Mpumalanga.
- It had further extended the PPS to 31 March 2020.

A description of the quarterly targets per programme are provided below:

Table 6: Performance targets by strategic objective as at 30 June 2019

Strategic Objective	Performance Indicators/Targets		
	Number	**Targets Achieved/ Exceeded**	**Description of unachieved targets**
Strategic Objective 2: Coordinate jobs drivers and implementation of the NGP economic strategy in support of the NDP	Not achieved: 1		• No analytical and public policy advocacy reports on socio-economic development and the NGP produced, as the targeted report analysing the future of work in national priority sectors had missed the deadline. Interviews with industry was expected to be finalised by the end of October 2019
Strategic Objective 4: Coordinate infrastructure development and strengthen its positive impact on the economy and citizens	Achieved: 3 Not achieved: 1	• 16 quarterly Cabinet-level progress reports of infrastructure Strategic Integrated Projects (SIPs) were produced • One coordination action to drive implementation of SIP 5 of the National Infrastructure Plan was reported on, namely the technical site visit to the Saldanha Crude Oil Storage facility • 5 action minutes on investment and infrastructure projects unblocked, fast-tracked, facilitated or assessments completed were produced against a target of 3	• Only 4 of the targeted 7 PICC meetings were held and facilitated, due to the impact of the elections on the availability of the participants
Strategic Objective 5: Promote productive investment, industrial financing and entrepreneurship for jobs and inclusive growth	Achieved: 2	• One report was produced on the level and impact of industrial finance by DFIs and government departments, including funding allocations on township enterprises • 3 reports on Ministerial or	

Strategic Objective	Performance Indicators/Targets		
	Number	Targets Achieved/ Exceeded	Description of unachieved targets
		departmental oversight engagements with the IDC held were produced against a target of 1	
Strategic Objective 6: Promote competition, trade and economic regulation in support of job creation, industrialisation and economic inclusion	Achieved: 1	• 3 reports on work of economic regulators were produced against a target of 1	

Source: EDD (2019b)

4.2.2. Financial performance

The EDD's appropriation for the 2019/20 financial year is R1,04 billion. In the first quarter, the EDD spent R282,7 million (27 percent of its annual appropriation). In the 2018/19 financial year, it had spent 21,1 percent of its appropriation by the end of the first quarter.

Table 7: Financial performance as at 30 June 2019

Programme (R'000)	2019/20			2018/19		
	Annual Budget	YTD Expenditure	Budget spent	Annual Budget	YTD Expenditure	Budget spent
Administration	90 334	21 115	23,4%	86 516	19 517	22,6%
Growth Path and Social Dialogue	37 009	8 157	22,0%	34 425	7 589	22,0%
Investment, Competition and Trade	938 109	253 171	27,0%	951 656	198 758	20,9%
TOTAL	**1 065 452**	**282 443**	**26,5%**	**1 072 597**	**225 864**	**21,1%**

Source: EDD (2019b)

4.2.2.1. Expenditure by economic classification

The EDD's budget in terms of the economic classification mainly goes towards transfer payments and subsidies[10]. Transfer payments in the first quarter of the financial year amounted to R250,5 million (27 percent of the annual budgeted allocation for transfers to entities). The second largest expenditure item was compensation of employees at R22,1 million followed by the payments of goods and services at R9,9 million.

Table 8: Financial performance by economic classification as at 30 June 2019

Economic Classification (R'000)	2019/20			2018/19		
	Annual Budget	YTD Expenditure	Budget spent	Annual Budget	YTD Expenditure	Budget spent
Compensation of Employees	97 693	22 073	22,6%	90 773	22 227	24,5%
Goods and Services	44 971	9 944	22,1%	44 436	8 469	19,1%

[10] These mainly include the payment of incentives, transfers to entities and other transfer payments.

Transfers to Entities	897 991	250 511	27,9%	932 902	194 898	20,9%
Households	-	12	-	-	82	-
Payment of Capital Assets	4 738	173	3,7%	4 486	188	4,2%
Total	**1 045 393**	**282 713**	**27,0%**	**1 072 597**	**225 864**	**21,1%**

Source: EDD (2019b)

The percentage spent on transfers to entities and goods and services was higher than at the end of the 2018/19 financial year. The EDD attributed this to a significantly increased transfer to the IDC for the PICC during the first quarter and to accruals emanating from the 2018/19 financial year being paid during the first quarter under goods and services. Other key cost drivers of goods and services under the Administration Programme have been (i) office accommodation; (ii) legal fees; (iii) travel and subsistence; and (iv) audit costs.

Furthermore, the expenditure on compensation of employees was lower at the end of the 2018/19 first quarter due to resignations. The cost of living adjustment for the non-SMS (Senior Management Service) staff members were paid during the first quarter.

4.3. Issues raised during the deliberations

The following concerns were raised in relation to the performance of the EDD during the Committee's deliberations:

4.3.1. ***The impact of high administered prices on the manufacturing industry:*** High administered prices remained a problem for manufacturers, especially within the steel industry that are high energy users. Many of these manufacturers were experiencing problems with municipalities around the high cost of electricity and their billing systems. The Committee enquired whether the EDD had considered engaging ESKOM, as well as provincial and local governments, to find a solution to the high cost of electricity and billing irregularities. Furthermore, the continuous rise in electricity prices and its impact on the viability of critical manufacturers within the steel industry was a major concern to the EDD. Finding a solution between the municipalities, Eskom and the steel industry was critical to ensure the viability of these sectors and to avert any negative impact on the economy and jobs. To address this impasse, the EDD had engaged all stakeholders, such as the municipalities, Eskom and the steel industry to find a mutually beneficial solution. The EDD informed the Committee that the Department of Energy had developed a negotiated pricing agreement framework in 2018 for electricity to facilitate incentives and enable consumers to increase/decrease electricity use at revised prices. The EDD further informed the Committee that delays in submitting new applications by municipalities to Eskom threatened the operations of manufacturers. A task team consisting of the Departments of Public Enterprises and of Energy, Eskom and the National Energy Regulator of South Africa had been established to find a resolution to this type of challenge.

The EDD informed the Committee that it had engaged with a number of municipalities and members of the Ferro Alloy Producers' Association, trade unions and Eskom to find an amicable solution with regard to electricity pricing. Currently, the South African Ferro Chrome Industry was running at only 40 percent capacity, thus putting thousands of jobs in danger, which was a major concern. AMSA, International Ferro Metals Limited, Hernic and African Rainbow Minerals (ARM) all closed their ferro chrome plants in South Africa, with ARM recently establishing a plant in Malaysia due to high domestic electricity cost.

With regard to the Emfuleni Local Municipality and AMSA matter, the EDD informed the Committee that this related to the fact that the municipality had not been paying tariffs over to Eskom. Litigation ensued with the court ruling that AMSA should pay Eskom directly. As this municipality was under administration, the EDD, together with the Gauteng Provincial Government, had been trying to find an amicable solution.

4.3.2. ***Ageing infrastructure at municipal level and its potential negative impact on local economies:*** Poor infrastructure within municipalities and its impact on the manufacturing sector remained a concern for the Committee. Recently, Astral Foods, which owned the Goldi and Country Fair Chicken brands, experienced water supply problems to its processing plants in the Lekwa Municipality in Mpumalanga. The Committee enquired whether any negotiations had been entered into with local government that would address

the poor local infrastructure. In addition, whether any form of financial assistance was being considered to address these challenges faced by municipalities, because if not addressed, it could have an adverse impact on the local economy. The EDD informed the Committee that the problem at the Lekwa Municipality was the inability of the Municipality to provide water services, as a result of ageing infrastructure, to the processing plant of Goldi Chicken. After extensive negotiations between the EDD, the Lekwa Municipality and Goldi Chicken, a short-term solution was agreed to, namely that the Lekwa Municipality would commit to providing two million litres of water to its processing plant. The EDD informed the Committee that it had received permission for Goldi Chicken to extract 3.5 million litres of water from the Vaal River which would be purified at its plant. According to the EDD, the long-term solution would be for Goldi Chicken to secure a licence to extract water from the Vaal River for industrial use. This application had been submitted and formally received by the Department of Water Affairs and Sanitation on 17 September 2019. The water licence application should be processed within 60 days. The Deputy Minister of Trade and Industry, Ms M Gina further highlighted the challenges faced by Nestlé (ageing infrastructure) and Sappi (high tariffs) and informed the Committee that although the improvement of infrastructure remained the responsibility of the municipality, through its intervention and negotiations, manufacturers indicated their willingness to assist municipalities to address the issue of the ageing infrastructure to avoid any adverse impact on the local economies.

4.3.3. ***Support for companies in distress:*** The Committee enquired about the parameters considered by the IDC when it considered granting a loan or taking on equity to assist companies that were in distress, given the current economic environment. The EDD informed the Committee that the current economic environment required the IDC to support distressed companies to prevent deindustrialisation. The IDC continued to fund distressed companies through its normal funding channels and not through a special allocation/set aside funds. The criteria to warrant support to businesses were that these businesses could have a significant negative impact on the supply and downstream value chain in its sector, particularly in line with the priority sectors, and that they have a clear viable turnaround plan. Support offered included non-financial support such as extended credit terms and assistance in engagements with regulators (where possible).

The EDD further informed the Committee that approved funding for companies in distress by the IDC had been approximately 13 percent of the total funding approved between 2016 and 2018. It should be noted that there had been a significant increase in the 2018/19 financial year to 17 percent as a result of a constrained economic environment.

4.3.4. ***Fines issued by the Competition Tribunal:*** All funds as a result of settlement agreements issued by the Competition Tribunal goes to the National Revenue Fund. The Committee enquired whether the consumer should not directly benefit from these settlement agreements as they bore the burden of unfair competition practices. The EDD informed the Committee that in terms of the Constitution all monies received by Government must be paid into the National Revenue Fund. The EDD was of the view that financial gains from settlement agreements benefit the consumer indirectly through the mechanisms introduced by Government, such as:

- The Agro-Processing Competitiveness Fund which had been established as a direct result of a settlement agreement with the Competition Authorities, as a result from the case against companies implicated in the bread cartel. The aim of the fund was to promote competitiveness, employment and growth in food value chains. The Fund provided finance on favourable terms to small and medium enterprises, with R250 million being set aside for this purpose. In addition, R160 million had been set aside from the Fund for the adjustment of flour and bread pricing.
- The Tirisano Construction Fund had been established as a result of the investigation by the Competition Commission into the construction industry which resulted in the Voluntary Rebuild Program Settlement agreement. The objective of the Fund was to develop and enhance the construction industry, as well as promoting social infrastructure for all South Africans.
- The Downstream Steel Competitiveness Fund had been established with the objective of financing initiatives that directly addressed competitiveness issues in the downstream steel industry by providing amongst others, working capital and revolving facilities, upgrading and modernisation of plant machinery and equipment, and for the establishment of start-up enterprises.

4.3.5. ***Status of the investigation into Ndzabandzaba Attorneys:*** The Committee enquired into the status of the forensic investigation initiated by the National Treasury into Ndzabandzaba Attorneys as the release of monies for investigations by the Competition Commission was subject to the completion of this forensic investigation. The EDD informed the Committee that the forensic investigation into Ndzabandzaba Attorneys was still ongoing. To date, the investigation had collected only a sample of data over the 2017/18, 2016/17, and 2016/15 financial years. Work was being undertaken to complete the forensic investigation on a full data set for the abovementioned financial years. At present, the EDD was not in a position to provide a specific timeframe for the completion of the forensic investigation.

PART B: FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT OF TRADE AND INDUSTRY

5. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

5.1. Strategic objectives

The DTI's strategic objectives, which guide its work, are as follows:

- Facilitating transformation of the economy to promote industrial development, investment, competitiveness, and employment creation;
- Building mutually beneficial regional and global relations to advance South Africa's trade, industrial policy and economic development objectives;
- Facilitating broad-based economic participation through targeted interventions to achieve more inclusive growth;
- Creating a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner; and
- Promoting a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.[11]

In terms of its core functions, the DTI is responsible for overseeing 13 listed entities and administering 43 Acts[12]. These entities can be divided into three categories according to the type of work they perform, namely the development finance institutions (DFIs), the regulatory entities, and the technical infrastructure institutions (see table 9).

In addition to overseeing the DTI, the Committee oversees these entities, as a number of the DTI's strategic objectives are implemented through these entities.

The B-BBEE Commission is an entity under the administration of the DTI. During the financial year, the DTI had, however, indicated that the Commission had been intended to be an independently listed entity. During the 2018/19 financial year, the DTI, the B-BBEE Commission and the National Treasury had entered into negotiations to make the Commission a separate entity. However, this was not possible without an amendment to the B-BBEE Act (No. 53 of 2003).

Table 9: List of entities reporting to the DTI

Development Finance Institutions	Regulatory Entities	Technical Infrastructure Institutions
• Export Credit Insurance Corporation of South Africa • National Empowerment Fund	• Company and Intellectual Property Commission • Companies Tribunal • National Consumer Commission • National Credit Regulator • National Consumer Tribunal • National Gambling Board of South Africa • National Lotteries Commission	• National Metrology Institute of South Africa • National Regulator for Compulsory Specifications • South African Bureau of Standards • South African National Accreditation System

[11] Department of Trade and Industry (2019a)

[12] DTI (2019a)

6. SUMMARY OF PREVIOUS KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

6.1. 2018/19 BRR Report recommendations

The Portfolio Committee on Trade and Industry in the fifth Parliament recommended that the Minister of Trade and Industry should consider:

6.1.1. "Engaging the Minister of Finance with a view to making funding available for maintenance, upgrading and investment in new technology for the technical infrastructure institutions, such as the South African Bureau of Standards, the National Metrology Institute of South Africa and the National Regulator for Compulsory Specifications, to improve efficiency and ensure modernisation during the outer years of the Medium-Term Expenditure Framework.

6.1.2. In consultation with the Ministers of Finance, of Economic Development, of Small Business Development and of Public Enterprises, developing additional mechanisms to facilitate the demand side for local, competitively sustainable goods, products and services.

6.1.3. Conducting an analysis of the impact of the benefits and challenges associated with existing trade agreements."[13]

6.2. 2019/20 Committee Budget Report

The Portfolio Committee on Trade and Industry in the sixth Parliament recommended that the Minister of Trade and Industry should consider:

6.2.1. "Engaging with the Ministers of Finance and of Health to review the impact of the Health Promotion Levy on Sugary Beverages on the sugar industry and sugar cane growers.

6.2.2. Tabling a Sugar Amendment Bill to address a lack of market diversification thus allowing for alternative products and the slow economic transformation in the industry.

6.2.3. Support measures to protect the sugar industry from imports that may be allegedly dumped into the South African market and to improve the industry's competitiveness.

6.2.4. Engaging the Minister of Finance with regards to the long-term budget allocation for the Manufacturing Competitiveness Enhancement Programme.

6.2.5. Amending the Broad-based Black Economic Empowerment (B-BBEE) legislation to allow the B-BBEE Commission to be a listed entity in terms of the Public Finance Management Act (No. 1 of 1999) to enable it to operate autonomously. In addition, enhancing the economic empowerment of workers through ownership share schemes."[14]

7. OVERVIEW AND ASSESSMENT OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE FOR THE PERIOD 1 APRIL 2018 TO 30 JUNE 2019

This section provides a comparison between what the DTI targeted in its APP against its performance set out in the Annual Report for the 2018/19 financial year, as well as the first quarter of the 2019/20 financial year. It then provides an overview of the AG's audit outcomes. Lastly, it highlights the key issues raised during the Committee's deliberations.

7.1. Overview and assessment of the Department's financial and non-financial performance for the 2018/19 financial year[15]

7.1.1. Non-financial performance

For the 2018/19 financial year, the DTI had 24 performance targets as outlined in its APP. Of the 24 targets, 21 targets were achieved while three were not achieved. This translates to 87,5 percent achievement of targets.

The following achievements were highlighted:

- The DTI had leveraged double the investment targeted through its support offered to enterprises or companies receiving incentives, approximately R30,2 billion worth of investment against a target of R15 billion;
- Exports facilitated were R425 million more than the targeted value of R4 billion;
- R249,6 billion worth of investment projects had been facilitated in the pipeline and had significantly exceeded the target of R50 billion;

[13] Portfolio Committee on Trade and Industry (2018)

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

[15] DTI (2019a)

- The percentage of women in senior management positions had been 54 percent, 4 percent above the planned target; and
- 85 non-financial support interventions had been achieved to support Black Industrialists (BIs) in the Industrial Policy Action Plan (IPAP) sectors against a target of 25 planned interventions.

Three targets that the DTI had not achieved were under the SEZs and Economic Transformation; Industrial Development; and Incentive Development and Administration programmes.

For the SEZs and Economic Transformation programme, only one of two targeted SEZs had been submitted to the Minister for designation. The DTI had indicated that the delay had been due to an extended stakeholder consultation.

Under the Industrial Development programme, the target that had not been achieved was the preparation of implementation reports on IPAP. The DTI had planned to prepare four implementation reports for the year; however, only three had been completed.

In the Incentive Development and Administration programme, while three of the four targets had been exceeded, the target on the number of companies approved for financial support had not been met. The DTI had planned to support 850 companies financially, but had only managed to support 755 companies.

The targets of the DTI had changed over the years, in particular those for the Consumer and Corporate Regulation programme. In the past, the targets were mainly for tabling policies, bills and regulations in Parliament. In the 2018/19 financial year, that had changed to developing progress reports on the development of Bills for Minister's approval. In the 2015/16 financial year, the DTI had reported on reports submitted to the Select Committee as a performance indicator. However, in the 2018/19 financial year, all implementation reports had been for submission to the Minister. According to the 2017/18 Annual Report, the Consumer and Corporate Regulation Division targets on Bills and regulations (2015/16 to 2017/18) had been the "number of Bills developed for Minister's approval", and the target had been rephrased to the "number of progress reports on the development of Bills for Minister's approval" in the 2018/19 financial year. According to the DTI, this had been done to allow it to account for the processes that are within its control.

7.1.2. Financial performance

The DTI's appropriation had been R9,53 billion for the 2018/19 financial year, of which R9,49 billion or 99,6 percent was spent. Total underspending for the financial year amounted to R41,5 million (0,4 percent) of the total budget. The DTI's actual spending by programme against the budget for the financial year is depicted in the table below. Most of the programmes underspent by less than one percent. The SEZs and Economic Transformation Programme underspent by 10,4 percent of its budget (R14,1 million), and the Investment South Africa Programme underspent by 12 percent of its budget (R9,4 million).

The DTI had reported that the under-expenditure of approximately 10,4 percent in the SEZs and Economic Transformation Programme had related to the B-BBEE Commission's set-up related projects that had not yet been finalised. This had been as a result of the entity not being listed. In Programme 8, Investment South Africa, the under-expenditure of 12 percent resulted from the setting-up processes of provincial One-Stop Shops that had not been finalised by the end of the financial year.

Table 10: Financial performance by programme for the 2018/19 financial year

Programme (R'000)	2017/18 Actual expenditure	2018/19			
		Adjusted appropriation	Final appropriation	Actual expenditure	Under expenditure
Administration	772 696	837 280	819 163	813 518	0,69 %
International Trade and Economic Development	121 121	124 773	122 093	122 075	0,01%
Special Economic Zones and Economic Transformation	95 699	146 276	136 100	121 963	10,39%
Industrial Development	1 838 839	2 029 777	2 018 645	2 018 625	0,00%

Consumer and Corporate Regulation	298 706	330 347	324 443	323 846	0,18%
Incentive Development and Administration	5 600 528	5 567 857	5 571 701	5 560 651	0,20%
Trade Export South Africa	456 154	411 602	460 818	460 194	0,14%
Investment South Africa	64 505	83 846	78 795	69 372	11,96%
Total	**9 248 248**	**9 531 758**	**9 531 758**	**9 490 244**	**0,44%**

Source: DTI (2019a)

7.1.2.1. Expenditure by category

Most of the DTI's expenditure comprises of transfers and subsidies[16] (R7,8 billion or 81,96 percent of expenditure). Compensation of employees accounted for approximately 10,3 percent of the total expenditure (R982,1 million). Whereas expenditure on goods and services had been R711,9 million, payments for capital assets had been R18 million and payments for financial assets had been R451 000. (See Figure 2 below.) This bodes well for service delivery as the largest share of the budget is channelled towards implementation, which takes place mainly within the DTI's entities. While this is positive, it should be noted that most of the DTI's entities are driven by human capital, as the implementation of their mandates are knowledge-intensive. Therefore, the compensation of employees accounts for a large share of some entities' budgets.

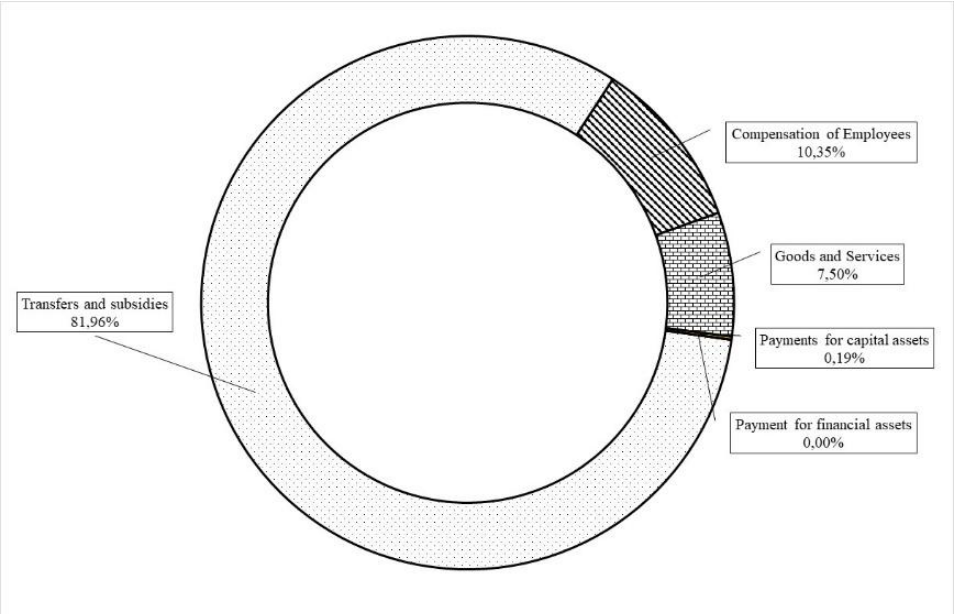

Figure 2: Expenditure by economic classification for the 2018/19 financial year
Source: DTI (2019a)

7.1.2.2. Transfers to DTI entities

During the 2018/19 financial year, 13 entities reported to the DTI. Of the 13 entities, three are self-funded. These are the CIPC, the NEF and the NLC. For the 2018/19 financial year, R1,2 billion had been transferred to the DTI's entities. For the 2016/17, 2017/18 and 2018/19 financial years, transfers to the DTI's entities had been as follows:

Table 11: Transfers to entities for the 2016/17 to 2018/19 financial years

Name of public entity	Amount transferred (R'000)		
	2016/17	2017/18	2018/19
Companies and Intellectual Property	-	-	-
Companies Tribunal	15 069	15 822	16 740
Export Credit Insurance Corporation of South Africa	171 566	188 272	183 248
National Consumer Commission	56 643	52 614	69 674
National Credit Regulator	69 577	73 056	75 361
National Consumer Tribunal	46 151	48 459	52 688

[16] Transfers and subsidies include transfers to DTI entities, transfers to public entities and international organisation, and incentives.

Name of public entity	Amount transferred (R'000)		
	2016/17	2017/18	2018/19
National Empowerment Fund	-	-	-
National Gambling Board	30 121	31 627	32 624
National Lotteries Commission	-	-	-
National Metrology Institute of South Africa	264 193	252 803	232 784
National Regulator for Compulsory Specification	86 418	128 745	146 104
South African Bureau of Standards	212 361	302 494	375 931
South African National Accreditation System	922 208	30 313	31 032
Total	**974 307**	**1 124 205**	**1 216 186**

Source: DTI (2019a)

7.1.3. Audit outcomes

The AG annually conducts an audit assessment of the DTI's financial and non-financial performance reporting. In terms of non-financial performance, the following programmes had been assessed to determine whether their reported performance information was useful and reliable:

- Programme 3: Special Economic Zones and Economic Transformation,
- Programme 4: Industrial Development,
- Programme 6: Incentive Development and Administration, and
- Programme 8: Investment South Africa.

The outcome of this assessment had been that the AG "did not identify any material findings on the usefulness and reliability of the selected programmes"[17].

In terms of the DTI's financial reporting, the AG noted that the DTI had obtained a clean audit report. However, the AG noted that the DTI had incurred irregular expenditure of R106 000 because of procurement deviation, but had not incurred any wasteful and fruitless expenditure during the financial year.

7.1.4. Human resources

For the financial year, the DTI had a total of 1 209 posts of which 15 had not been filled by 31 March 2019, which represents a vacancy rate of one percent. Vacancies were mainly in the following programmes: Trade and Investment South Africa (6 posts), SEZs and Economic Transformation (4 posts) and Industrial Development (3 posts). The majority of vacancies were at the senior management (10 posts) and highly skilled supervisory levels (5 posts). It should also be noted that 67 appointments were made outside of the organisational structure resulting in 1 261 employees as at 31 March 2019.

In terms of employment equity, 93,2 percent of employees had been black, 58,7 percent had been female and 3,8 percent had been people with disabilities (48 employees). At senior management service level, 92,3 percent had been black and 34,6 percent had been female.

Table 12: Employment equity breakdown as at 31 March 2019

Racial Breakdown	Male	Female	Total
African	438	605	1 043
Coloured	34	34	68
Indian	20	44	64
White	29	57	86
Total	**521**	**740**	**1 261**

Source: DTI (2019a)

During the financial year, there had been 105 appointments and 98 terminations with a turnover rate of 7 percent. The reasons for the terminations had been one death, 58 resignations, 14 contracts expired, nine employees retired, 14 employees were transferred to other public service departments and two employees took early retirement.

There had been 36 disciplinary actions taken during the 2018/19 financial year. The majority of cases had been related to non-disclosure of financial interests (20 cases). There had also been three cases of alleged fraud. The outcomes of the disciplinary actions had been two verbal

[17] DTI (2019a: 100)

warnings, four written warnings and 15 final written warnings. Furthermore, in five disciplinary cases, the employees had been found not guilty and four cases had been withdrawn; six disciplinary cases had still been pending. In addition, 60 of the 67 grievances lodged had been resolved by 31 March 2019.

7.2. Financial and non-financial performance as at 30 June 2019

7.2.1. Non-financial performance

The DTI had 19 targets for the first quarter of the 2019/20 financial year and achieved 16 of its targets. It highlighted the following achievements:

- R18,1 billion of investment had been leveraged, of which R9,1 billion had been towards industrial infrastructure and R43,9 million had been towards innovation/technology development.
- 158 enterprises/projects had been approved for financial support across all incentives to a value of R2,8 billion.
- 19 638 jobs had been supported from approved projects with 15 962 retained jobs and 3 676 new jobs created.
- Investment pipeline of R59,1 billion had been achieved.
- Conclusion of the Tripartite Free Trade Agreement[18] bilateral tariff negotiations between SACU and the East African Community (EAC).
- R1,3 billion recorded for export sales facilitated against a target of R1,1 billion.
- Successful Outward Trade and Investment Mission to Uganda in May 2019. The mission resulted in R180,9 million worth of export sales reported and an estimated R208,1 million of export sales projected after six months.
- Approval of Pick n Pay and Nedbank Black Industrialist Programme to assist BIs in the agro-processing space that are below the current R30 million threshold with financial and non-financial support.
- 54 percent of senior managers are female and 3,9 percent of employees are people with disabilities.

The three targets that had not been achieved were:

- *The launching of the annual Rolling IPAP*: The new administration had announced a shift in policy and the development of a re-imagined industrial strategy. This would necessitate a realignment of this performance indicator.
- *The number of companies assisted under the Export Marketing Incentive Scheme to support value-added exports*: Only 158 companies against a target of 216 companies had been financially assisted, as outward selling missions to Netherlands, Pakistan, Vietnam and Indonesia, Saudi Arabia and the United Arab Emirates had not taken place. These missions would be rescheduled to the second and third quarters.
- *The number of education and awareness workshops on policies and legislation conducted and reports produced for the Minister's approval*: The DTI conducted four workshops compared to a target of six workshops for the first quarter. This had been due to requests by municipalities to postpone workshops until after the national elections.

7.2.2. Financial performance

The DTI's appropriation for the 2019/20 financial year had been R10,06 billion. In the first quarter, the DTI expenditure had been 6,4 percent lower than its projected expenditure, as only R2,5 billion of the projected R2,7 billion had been spent in the first quarter.

Table 13: Financial performance as at 30 June 2019

Programme (R'000)	Budget 2019/20	Year-to-date			Budget available
		Budget	Expenditure	Variance	
Administration	803 475	191 846	185 112	3,51%	76,96%
International Trade and Economic Development	130 405	25 768	25 672	0,37%	80,31%

[18] The Tripartite Free Trade Agreement is an agreement between three African regional economic zones, namely the Common Market of Eastern and Southern Africa, the EAC and the Southern African Development Community, to establish a free trade area amongst their member countries.

Special Economic Zones and Economic Transformation	171 458	28 508	24 681	13,42%	85,61%
Industrial Development	2 100 814	1 273 638	1 272 036	0,13%	39,45%
Consumer and Corporate Regulation	328 319	258 896	259 048	-0,06%	21,10%
Incentive Development and Administration	6 026 061	661 306	509 077	23,02%	91,55%
Trade Export South Africa	440 456	251 612	240 239	4,52%	45,46%
Investment South Africa	58 039	11 683	13 406	-14,75%	76,90%
TOTAL	**10 059 027**	**2 703 257**	**2 529 271**	**6,44%**	**74,86%**

Source: DTI (2019b)

Underspending totalled R174 million. At a programme level, there had been underspending across most programmes ranging between 0,13 percent and 23 percent. The highest levels of underspending had been within the Incentive Development and Administration Programme (23 percent) and within the SEZs and Economic Transformation Programme (13,4 percent). However, the Investment South Africa Programme had overspending of R1,72 million (14,8 percent) followed by the Consumer and Corporate Regulation Programme with an amount of R152 000 (0,06 percent).

7.2.2.1. Expenditure by economic classification

The DTI's budget in terms of the economic classification mainly goes towards transfer payments and subsidies[19]. Transfer payments in the first quarter of the financial year amounted to R2,1 billion (25,3 percent of the annual budget allocation)[20]; of which, R1,3 billion had been transfers to its entities and R810,3 million had been disbursed to the beneficiaries of the various incentive scheme programmes. The second largest expenditure item had been compensation of employees at R230,5 million (22 percent of the annual budget allocation for this budget item) followed by the payments of goods and services at R146,5 million (22,4 percent of the annual budget allocation for this budget item)[21].

7.3. Issues raised during the deliberations

The following concerns were raised in relation to the performance of the DTI during the Committee's deliberations:

7.3.1. ***Beneficiation:*** The Committee enquired about the status of beneficiation within the steel industry and its impact on job creation, and whether DTI was considering streams of beneficiation, other than steel, that could contribute to job creation. The DTI informed the Committee that the Mineral Beneficiation Action Plan had been developed and incorporated into the IPAP. Five value chains focused on platinum group metals, titanium, iron-ore and steel, and polymers, as well as upstream mining inputs, have been identified for beneficiation. Steel continued to be fundamental to manufacturing in South Africa with significant value addition, representing 190 000 direct jobs in the iron-ore, steel making and fabrication industries. Top steel consuming industries (mining, construction, automotive, cables and structural steel) contribute about 15 percent of South Africa's GDP and employed 8 million people (direct and indirect).

Currently, the DTI had been working on and supporting the following initiatives in collaboration with the IDC and the private sector:

- Beneficiation of platinum group metals and fuel cell industry development;
- Beneficiation of titanium and the development of a titanium pigment manufacturing facility; and
- Energy storage and battery development (beneficiation of vanadium, manganese and nickel).

[19] These mainly include the payment of incentives, transfers to entities and other transfer payments.

[20] Own calculations based on DTI (2019c).

[21] Ibid

Mineral-based energy solutions like fuel cells and energy storage had been gaining momentum driven by an increase in the global demand for cleaner energy solutions. South Africa's resources provide a key opportunity to develop new beneficiation industries to supply the growing clean energy export market.

7.3.2. ***Localisation as a tool of industrial policy:*** Localisation enabled by local public procurement remained an important policy tool for industrial development within South Africa, as it would assist in growing the economy and developing the industrial base. The Committee highlighted the challenge of non-compliance with the procurement of designated products. The Committee enquired whether the DTI had an education programme focussing on localisation and local public procurement to empower provincial and local governments to comply with the procurement of designated goods. The DTI reaffirmed that local production and content, as well as strategic supplier development programmes, were critical industrial levers in the re-imagined industrialisation strategy. Regulation 8 of the 2017 Preferential Procurement Regulations empowered the Minister of Trade and Industry to designate industries, sectors and sub-sectors for local production at a specified minimum threshold of local content. To date, twenty-three products had been designated for local production. For tenders designated for local production, the National Treasury circulates instruction notes which regulate the environment within which government departments and public entities may advertise, evaluate, adjudicate and procure designated products.

Furthermore, the DTI confirmed that it had developed guidelines for the calculation and measurement of local content, as well as a training manual which had been used to provide training and shared with organs of state. Continuous training had been provided in all spheres of government and to suppliers on local content requirements. The focus of the training was on the preparation of bid documents for designated tenders, the calculation of local content and the evaluation of tenders.

7.3.3. ***Impediments to FDI***: FDI into the South African economy was critical to stimulate economic growth which leads to job creation. The biggest challenge facing investors that want to invest in South Africa was administrative bottlenecks. The One-Stop Shop initiative was geared towards providing investors with services to fast-track projects and reduce government red tape when establishing a business. It formed part of government's drive to become more investor-friendly by lowering the cost of doing business as well as making the administrative process easier. However, there were still challenges due to a lack of effective coordination among the respective role-players, particularly with the Department of Home Affairs. The Committee was concerned that this was an impediment to ensuring a seamless process within the One-Stop-Shops. The Committee enquired what measures were being considered to address these challenges that could inhibit FDI flows into the country. The DTI informed the Committee that each One-Stop Shop had a Visa Facilitation Centre office for the processing of visas. For more complex policy or other work permit issues, an appointment could be facilitated with a Department of Home Affairs official. As part of the intergovernmental framework with the Departments of Home Affairs and of Labour, InvestSA chaired an interdepartmental project meeting, which should be able to fast track, and unblock delays with visa applications. Currently, government, through the Department of Home Affairs, was moving towards an e-visa programme with an online application process. The DTI informed the Committee that the e-visa system was a key deliverable of the Tourism Masterplan.

7.3.4. ***Promotion of economic transformation:*** The development of rural and township economies could enhance and promote economic transformation, ensure youth employment and boost enterprise development in various parts of the country. In order to promote the development of rural and township economies, the Committee enquired whether education and awareness campaigns were being rolled-out throughout the country to ensure that the DTI achieved its objectives. The DTI informed the Committee that the Digital Hubs Programme would be rolled out in the Industrial Parks, many of which are based in townships. This programme would offer, amongst other things, training targeted at the youth in these areas for purposes of promoting economic transformation and employment. The Committee should note that this programme was at a developmental stage. Education and awareness campaigns in this regard were only scheduled to start from February 2020.

7.3.5. ***Decentralisation of economic activity:*** The Committee enquired how incentives could be used to facilitate decentralised economic growth across all provinces. The DTI informed the Committee that through the SEZ Programme it had created and implemented incentives to facilitate decentralised regional development. Through this Programme, regional industrial hubs had been established in different provinces, such as the Eastern Cape, the Free State, Limpopo and Mpumalanga, with the aim of diversifying the national industrial base from Gauteng, Kwa-Zulu Natal and the Western Cape. The SEZ Programme supports the development of targeted industrial opportunities through the provision of industrial and social infrastructure.

In addition, the DTI had utilised the Industrial Parks Revitalisation Programme to revive township and rural economies by improving the infrastructure within rural and township industrial parks that would serve as an enabler for promoting meaningful investments in these areas. The improved infrastructure was expected to leverage investment and encourage manufacturing in these areas, as well as sustain and increase jobs. The provision of infrastructure included putting in place security features including, but not limited to, fencing, high mast lights, gates and guard houses. This infrastructure could support the process of economic growth and industrialization, thus stimulating inclusive economic growth in South Africa's rural and township regions.

7.3.6. ***Impact of roadshows and education campaigns:*** The Committee enquired how effective education and awareness campaigns, especially in relation to the BI Programme in rural areas, had been; and whether awareness campaigns on incentives were broad or only targeted at existing, known BIs. The Deputy Minister noted that the value of roadshows and education campaigns should never be underestimated. Awareness campaigns on incentives were being conducted across all provinces and were targeted at both new and existing BIs. These programmes provided the opportunity to make the public, entrepreneurs and others aware of the assistant programmes offered by the DTI and how they could access these resources to establish small, medium and large enterprises (SMMEs). Furthermore, the DTI partnered with DFIs, municipalities, and commercial financial institutions to facilitate the inclusion of BIs into the incentive programmes, especially in the rural areas.

7.3.7. ***Industrial Parks Revitalisation Programme:*** Investment in industrial parks was approaching more than R500 million. Notwithstanding this investment, it would appear that there were no agreements with any local or provincial authorities regarding any rebates to attract new investment to these Industrial Parks. The Committee enquired when such agreements would be finalised to make further investment more attractive. The DTI informed the Committee that it had embarked on a consultation process with the local authorities that would include a discussion on rebates to attract new investment to the Industrial Parks. These engagements have been planned from 30 October 2019. The process was expected to be carried out over an extended period to cover all twenty-seven (27) Industrial Parks in the Programme.

7.3.8. ***Film incentives:*** The impact of incentives within the film industry cannot be underestimated. Currently, the industry was experiencing challenges with respect to securing projects due to the cap on incentives at R50 million per project, delays, and insufficient funds. The Committee enquired, notwithstanding the current economic environment, whether the DTI was revisiting its policies in relation to the film incentive. The DTI responded that national government, through the DTI incentive, was the major financier of the film sector. It argued that best practice demonstrated that this was not ideal for the future growth and sustainability of the South African film sector, especially in light of the current fiscal constraints faced by government. The DTI was of the view that provincial governments and private sector should play a more active role in the financing of productions to complement the national incentive programme should have service deals to ensure sustainable growth of the film sector.

Furthermore, the DTI informed the Committee that it had undertaken a review of the global industry which highlighted that the R50 million cash grant incentive that was being offered was competitive when looking at global benchmarks. According to the DTI, other jurisdictions mainly offer a tax credit to the film sector within a specific cap. The South African film incentive was one of the few global incentives which did not use application windows. This provided for a larger number of applicants to access the incentive while at

the same time decreasing the turnaround times to process the applications. The average turnaround time for compliant applications to be considered was 45 days.

In addition, best practice highlighted that incentives should focus on the development of South African content that could be commercially exploited, both locally and internationally, to give better commercial returns to South African producers. This should be the priority, with the sector not mainly relying on service deals which would not encourage the growth of local content and intellectual property rights that could be exploited.

7.3.9. ***The Employment Creation Fund (ECF):*** A R24 million grant had been approved from the Employment Creation Trust for a company called "Creative Designs" with only R12 million being paid to date. It came to the Committee's attention that the failure to transfer the rest of the grant could potentially put 300 jobs at risk. The Committee enquired what the reasons for the delay in the final pay-out had been, given the potential job losses. The DTI responded that the ECF was a European Union funded enterprise development and employment creation programme of South Africa's Economic Cluster, which was administered by the DTI. This Fund relied on the National Treasury's International Development Co-operation Unit to ensure continued funding support of all duly approved projects, as custodians of international aid funds for enterprise development and employment creation.

The ECF Secretariat, through the DTI's Office of the Chief Financial Officer (CFO, lodged a requisition for replenishment of funds with the National Treasury that included this project. The DTI informed the Committee that, to date, the DTI's ECF Secretariat had been constantly reaching out to the International Development Co-operation Unit to request a speedy and rapid resolution and processing of this requisition. However, this had been to no avail.

7.3.10. ***Failure to distribute funds as part of the BI Scheme:*** Recent newspaper reports around Murendi Properties and Building Supplies claimed that a promised grant of R14 million had not been distributed to this BI Consortium. The Committee enquired what the reasons were for the DTI not distributing these funds, notwithstanding a Court ruling on the matter. The DTI informed the Committee that, on 10 October 2017, an amount of R14 210 530 had been approved for Murendi Properties and Building Supplies under the BIS. The client submitted its first claim on 9 February 2018 which had been verified and inspected by the BI Scheme Claims Unit. During the process of claims verification of the B-BBEE certificate with the SANAS, it had been discovered that the certificate may not be authentic. An investigation had been conducted which confirmed that the first certificate submitted by Murendi Properties & Building Supplies with the claim, had not been valid. Murendi Properties took the DTI to court to demand payment of the BI Scheme grant and the lower court ruled in favour of the applicant. Furthermore, the applicant invoked rule 18(1) of the Superior Courts Act (No. 10 of 2013) which required the DTI to make instant payment in spite of the absence of judgement and the DTI's wish to appeal the judgement. However, the Court ruled in favour of the DTI on appeal by dismissing the application with cost as the Court had been of the view that the application did not constitute exceptional circumstances for the purpose of the section invoked. The DTI instructed the State Attorney to defend the matter and appeal the judgement due to the seriousness of misrepresentation by the applicant.

PART C: FINANCIAL AND NON-FINANCIAL PERFORMANCE OF IDENTIFIED ENTITIES

8. NATIONAL REGULATOR FOR COMPULSORY SPECIFICATIONS

8.1. Introduction

The NRCS falls under the Industrial Development Programme of the DTI. It was established on 1 September 2008, as a national regulatory agency. Its mandate is to promote public health and safety, environmental protection and fair trade through the administration of compulsory specifications (VCs) and/or technical regulations (TRs). Thus, it protects consumers and the environment against unsafe and harmful products. Furthermore, it is meant to 'lock out' non-compliant products from being traded in the domestic market by approving products and ensuring compliance by means of surveillance at the ports of entry into South Africa and within the country through market surveillance and inspections at the production sites of domestic manufacturers.

The NRCS' four strategic objectives are to:

- Develop, maintain and administer compulsory specifications and technical regulations,
- Maximise compliance with all specifications and technical regulations,
- Inform and educate the NRCS's stakeholders on its mandate, and
- Ensure an optimally capacitated institution.

8.2. Performance for the 2018/19 financial year

8.2.1. Non-financial performance for the 2018/19 financial year

In the 2018/19 financial year, the NRCS had 12 key performance targets. Of the 12 targets, nine were achieved or exceeded. The NRCS reported the following key achievements for the 2018/19 financial year:

- Non-compliant products to the value of R319 million had been identified.
- 2 458 incidents of short measure within the Legal Metrology domain had been identified.
- It had spearheaded a project where the organisation had distributed 1 200 compliant paraffin stoves to certain communities in exchange for their non-compliant products; thus, reducing the risk of paraffin-related fires, burns and asset losses.
- 50 178 inspections had been conducted across all regulated industries.
- The Risk-Based Approach had been implemented to inspections and approvals.
- 17 656 Letters of Authority (LOAs) had been finalised compared to 14 148 in the 2017/18 financial year, with 79 percent of these being within the 120 calendar day turnaround time target.

The two key targets that had not been achieved related to: (i) the processing of LOAs within 120 calendar days and (ii) the implementation of the Information and Communication Technology (ICT) Master System Plan.

In the Chemicals, Materials and Mechanicals Unit, only 69 percent of applications had been processed within 120 calendar days against a target of 100 percent. This was similar to its performance in the 2017/18 financial year. Similarly, in the Electro-technical Unit, 74 percent of LOAs had been processed within 120 calendar days.

Delays in the processing of LOAs could negatively impact the economy, as this may lead to the manufacturing of a product being halted until approval has been obtained. Secondly, for imported goods, the delays in the approval of LOAs were perceived as a protectionist measure being implemented by South Africa. This did not bode well with South Africa's trading partners, therefore the matter should be resolved.

In addition to its performance on the set targets, the NRCS developed a compulsory specification for processed ready-to-eat cold meats following the Listeriosis outbreak in 2017. This would be an additional mandate for the NRCS and would require the NRCS to conduct inspections at the relevant factories and retailers to test these meat products to ensure that they are safe for human consumption. The NRCS' performance targets are described in the table below.

Table 14: Performance targets by strategic goal for the 2018/19 financial year

Strategic Goal	Performance Indicators/Targets		
	Number	**Targets Achieved/ Exceeded**	**Description of unachieved targets**
Strategic Goal 1: Develop, maintain and administer compulsory specifications and technical regulations	Achieved: 2 Not achieved: 0	• 12 Compulsory Specifications/Technical Regulations had been approved by the Chief Executive Officer (CEO) for submission to the DTI and industry for publication in the Government Gazette • 100 percent of Regulatory Impact Assessment Reports had been submitted to the DTI	

Strategic Goal	Performance Indicators/Targets		
	Number	Targets Achieved/ Exceeded	Description of unachieved targets
		for all new and amended VCs/TRs submitted for 1st gazetting	
Strategic Goal 2: Maximise compliance with all specifications and technical regulations	Achieved: 3 Not achieved: 2	• 20 828 inspections had been conducted against a target of 20 430 • 100% of all declared consignments and productions of canned fishery and meat products had been inspected as planned • 2 088 inspections on locally produced frozen products, fish and canned meat processing factories and vessels had been conducted against a target of 2 050	• Only 96,1% of all approval for gaming applications had been processed within 30 calendar days against a target of 100% approvals. The new requirement for gambling machines regarding newly issued bank notes had necessitated amendment of the previously issued certificates and this had created a backlog. • 79% of all approval applications had been processed within 120 calendar days against a target of 100%. This had been due to backlogs in the Electro-technical Unit, as there had been high volumes of applications received and human resource constraints.
Strategic Goal 3: Inform and educate our stakeholders about the NRCS	Achieved: 1 Not achieved: 1	• 21 Consumer education events or campaigns had been conducted against a target of 14.	• 75% of the approved Stakeholder Engagement Strategy had been implemented against a target of 100%.
Strategic Goal 4: Ensure an optimally capacitated institution	Achieved: 2 Not achieved: 2	• The 6% vacancy rate as targeted had been achieved. • 35% of management had been female against a target of 33%.	• No people with disabilities had been employed. • Only 37% of the ICT Master System Plan had been implemented. This had been due to inadequate internal ICT skills and unsuccessful attempts to appoint an appropriate service provider.

Source: NRCS (2019a)

8.2.2. Financial performance

In the 2018/19 financial year, the NRCS' budgeted income had been approximately R420,9 million, with actual income received or earned of R437,3 million. The largest share of income had been from services rendered, in particular levies for compulsory specifications amounting to R213,7 million. The funding through transfers from the DTI had been the second largest source of income for the NRCS at R146,1 million for the financial year. Other sources of income had included income from services rendered amounting to R51,6 million. The table below depicts the entity's income and expenditure for the financial year.

Expenditure for the financial year had been projected at R420,9 million; however, actual expenditure had been R562,8 million. The significant difference in budgeted expenditure and actual expenditure had been mainly as a result of R144,5 million of the NRCS' surplus funds which had to be returned to the National Treasury. This amount had to be recognised as an expense, hence the high total expenditure.

Employee costs, travel expenses, lease rentals, contract services, and testing and sampling had been other significant contributors to expenditure. While there had been underspending on employee costs, this cost item remained the largest share of total expenditure, accounting for 74 percent of total expenditure for the financial year. Employee cost would be very high for this entity, as its services were labour-intensive.

The total personnel expenditure[22] had been R302,1 million, accounting for more than 80 percent of the entity's total expenditure. The largest share of the NRCS' employee costs goes to professionally qualified employees, followed by senior management, and skilled employees. Top management account for 1.8 percent of total employee cost.

Table 15: Financial Performance for the 2018/19 financial year

(R'000)	2017/18 Actual income and expenditure	2018/19		Variance
		Approved Budget	Actual income & expenditure	
Income				
Levies for compulsory specifications	264 334	219 691	213 704	-2,7%
Transport annual registration fee	2 172	2 400	2 100	-12,5%
Government grants and core funding	128 745	132 104	146 104	10,6%
Revenue from services rendered	65 115	55 831	51 638	-7,5%
Other income	20 322	10 960	23 715	116,4%
Revenue	**480 688**	**420 986**	**437 260**	**3,9%**
Expenses				
Advertising and marketing expenses	2 193	2436	1 907	27,7%
Contract services	9 044	11 792	15 677	-32,9%
Depreciation and Amortisation	5 094	5 072	5 711	-12,6%
Employment cost	280 262	330 421	308 274	6,7%
Finance cost	184	62	1 134	100,0%
Office rentals and other operating lease expenses	12 777	15 145	13 117	13,4%
Tests and sampling	4 043	8 505	4 832	43,2%
Travel expenditure	17 880	20 906	22 716	-8,7%
Other expenditure	14 930	26 648	44 909	-68,5%
Surplus retuned to the National Revenue Fund via the DTI		-	144 500	-
Expenses	**346 406**	**420 986**	**562 777**	**-33,7%**
Surplus/Deficit	**134 283**	**-**	**-125 517**	**-**

Source: NRCS (2019a)

8.2.3. Human resources

The NRCS had 330 posts according to its organisational structure with 16 unfunded posts. It had 297 employees as at the end of March 2019, with an overall vacancy rate of 10 percent. However, only 17 of these vacancies had been funded, which reduced the vacancy rate to 6,05 percent. Business Units with relatively larger numbers of vacant posts, when considering the organisational structure, included the Electro-technical Unit (16 vacant posts), Legal Metrology (13 vacant posts), and Foods (4 vacant posts). There had also been critical positions that had been vacant during the financial year, including the chief information officer, supply chain manager, finance manager and the human resources manager.

The employment equity breakdown is provided in the table below. There had been no employees with disabilities employed at the NRCS as at the end of March 2019.

Table 16: Employment equity breakdown as at 31 March 2019

[22] Personal expenditure excludes committee fees, training costs, long service awards and post-employment health care benefits

Racial Breakdown	Male	Female	Total
African	104	95	199
Coloured	27	13	40
Indian	9	6	15
White	30	13	43
Total	**170**	**127**	**297**

Source: NRCS (2019a)

The NRCS' turnover rate had been 3,7 percent with nine appointments and transfers, and 13 terminations. The reasons for the terminations had been resignations (4), expiry of contracts (2), dismissals due to misconduct (2), dismissal due to inefficiency (1), and retirements (4).

With respect to labour relations, there had been four disciplinary actions during the 2018/19 financial year. This covered misconduct in terms of fraud and absenteeism (1 case), unacceptable behaviour (1 case) and fruitless and wasteful expenditure (2 cases). The outcomes of disciplinary hearings held during the financial year had been that two employees had been sent for correctional counselling and four employees had been dismissed. There had also been six grievances lodged with 50 percent of these being resolved by 31 March 2019.

8.2.4. Audit outcomes

The NRCS had received a qualified audit for the 2018/19 financial year, as well as for the prior six financial years. This recurring qualification was a result of revenue collection from levies that the NRCS had not been able to estimate accurately and collect effectively due to an inadequate system to track levies owed to it.

In terms of the irregularities with revenue collection, the NRCS' had been unable to identify and keep a database of companies that should be paying levies and had been unable to follow up on levy payers when they had not paid for a particular period. Other contributors to the qualified opinion had been the lack of proper record keeping in relation to the provision of leave.

In terms of its non-financial performance reporting, the AG had assessed the following programmes for usefulness and reliability:

- Strategic Goal 1: To develop, maintain and administer compulsory specifications and technical regulations;
- Strategic Goal 2: To maximise compliance with all specifications and technical Regulations; and
- Strategic Goal 3: To inform and educate stakeholder about the NRCS.

The AG had found no material findings regarding the usefulness and reliability of the information.

In terms of irregular expenditure, the NRCS had incurred irregular expenditure of R15,3 million because of payments contravening treasury regulations (R14,98 million) and payments for expired contracts. Furthermore, while it had not incurred any fruitless and wasteful expenditure during the financial year; there had been unresolved fruitless and wasteful expenditure from prior financial years amounting to R495 117.

In addition, the AG had identified the following cases of non-compliance with legislation, in particular with the Public Finance Management Act (PFMA):

- The NRCS' financial statements that were "….submitted for auditing had not been prepared in accordance with the prescribed financial reporting framework and supported by full and proper records"[23] as per the requirement of the PFMA.
- Effective and appropriate steps had not been taken to collect all revenue due.
- Effective and appropriate steps had not been taken to prevent irregular expenditure.

[23] NRCS (2019a)

8.3. Financial and non-financial performance as at 30 June 2019

8.3.1. Non-financial performance

For the first quarter, the NRCS had nine performance targets. Of those targets, seven had been achieved or exceeded. As depicted in the table below, the targets that had not met were the number of inspections for the quarter and the percentage of LOAs that had been processed within 120 calendar days.

The NRCS also highlighted the following key achievements:

- Non-compliant products to the value of R101,5 million had been identified.
- 13 512 inspections had been conducted across all regulated industries,

In terms of the processing of LOA applications within 120 calendar days, the NRCS had received 3 279 applications and had processed 3 023 applications within the set timeframe. These were in the following Business Units:

- *Automotive*: 99 percent had been processed within the set timeframe (970 of 977 applications);
- *Chemicals, Materials and Mechanicals*: 62 percent had been processed within the set timeframe (102 of 155 applications);
- *Electro-technical*: 90 percent had been processed within the set timeframe (1 906 of 2 102 applications); and
- *Legal Metrology*: 100 percent had been processed within the set timeframe (45 of 45 applications).

Table 17: Performance targets by strategic goal as at 30 June 2019

Strategic Goal	Performance Indicators/Targets		
	Number	**Targets Achieved/ Exceeded**	**Description of unachieved targets**
Strategic Goal 1: Develop, maintain and administer compulsory specifications and TRs	Achieved: 2 Not achieved: 0	• 3 new or amended VCs/TRs had been submitted to the DTI against a target of 1 • 100% Regulatory Impact Assessment Reports had been submitted to the DTI for all new and amended VCs/TRs submitted for 1st gazetting	•
Strategic Goal 2: Maximise compliance with all specifications and TRs	Achieved: 3 Not achieved: 2	• 100% of all declared consignments and productions of canned fishery and meat products had been inspected, a total of 7 855 inspections • 556 inspections on locally produced frozen foods had been conducted against a target of 535 inspections • 100% of gaming approval applications had been processed within 30 calendar days	• 5 101 inspections within Automotive, Chemicals, Electro-technical, and Legal Metrology Business Units had been conducted against a target of 5 400 inspections • 92% of all approval applications had been processed within 120 calendar days against a target of 95%
Strategic Goal 3: Inform and educate our stakeholders about the NRCS	Achieved: 1 Not achieved: 0	• 3 NRCS consumer education events or campaigns had been conducted	
Strategic Goal 4: Ensure an optimally capacitated institution	Achieved: 1 Not achieved: 0	• 5% vacancy rate had been achieved	

Source: NRCS (2019b)

In terms of the inspections, the NRCS had noted that this target had not been met because inspectors had been focused on eradicating the backlog in approvals in the Chemicals, Materials and Mechanicals Business Unit. The target on the processing of LOAs had also not been achieved because of the backlog in the Electro-technical Business Unit and applications that had been submitted without the required documentation.

The backlogs in the processing of LOAs had remained a challenge for the NRCS. In the past two financial years, the backlog had been mainly in the Electro-technical Business Unit. However, the challenge was now also evident in the Chemicals, Materials and Mechanicals Business Unit.

8.3.2. Financial performance

The NRCS' budget for the 2019/20 financial year had been R470,8 million. In the first quarter of the financial year, the NRCS budgeted income had been R87,1 million while projected expenditure had been R118,3 million. In terms of income, income from levies received had been R10,5 million less than expected while all other forms of income had been more than budgeted for.

Table 18: Financial performance as at 30 June 2019

(R'000)	Annual budget	First Quarter 2019/20		
		Budget	Actual	Variance
Levies	234 405	27 725	17 153	-10 572
Grant Funding: DTI	139 500	34 875	139 500	104 625
Services	65 102	16 606	14 360	2 246
Prior Year Levy Audits	21 640	5 410	13 792	8 382
Interest Income	9 196	2 298	6 395	4 097
Other Income	1 031	254	165	-89
Total Income	**470 874**	**87 168**	**191 365**	**- 104 197**
Employee cost	364 596	89 473	72 541	16 932
Operational Cost	106 278	28 907	21 105	7 802
Total Expenditure	**470 874**	**118 380**	**93 646**	**24 734**
Surplus	**-**	**- 31 212**	**97 719**	**-128 931**

Source: NRCS (2019b)

The NRCS had incurred under-spending of R24,7 million. This had been mainly due to the under-spending of R16,9 million under compensation of employees. Despite the under-spending, compensation of employees remained the largest single cost item for the NRCS, due to the nature of its work. In the first quarter, compensation of employees accounted for 77,5 percent of the total expenditure.

8.3.3. Human resources

By the end of the first quarter, there had been 299 employees and three contract employees against an approved structure of 330 posts, of which 314 had been funded. The unfunded posts had been on hold until the structural review process had been finalised. In the period under review, the NRCS had reported 15 vacant posts based on budgeted posts and a vacancy rate of 5 percent. There had been five appointments and two resignations during the first quarter.

During the period under review, one employee had been suspended and there had been a default award at the Commission for Conciliation, Mediation and Arbitration (CCMA) against the NRCS. However, the NRCS had explained that it had not received the notice of set down as the notice from the CCMA had not captured the employer details correctly. Therefore, it had subsequently applied for a rescission of the judgment, which had been successful.

Furthermore, the NRCS had reported on-going labour challenges. It had been noted in the quarterly report that "the labour environment in NRCS remains fragile, characterised by lack of trust, and inability to meet organisational targets"[24].

8.4. Key issues raised by the Committee on the NRCS

[24] NRCS (2019b)

The following concerns were raised related to the performance of the NRCS during the Committee's deliberations:

8.4.1. ***Certification of compliance:*** The NRCS regulated a number of products that were imported from other countries and facilitated exportation of other goods especially within the Oceans economy. The Committee enquired how the NRCS ensured the conformity of imported products to the applicable required compulsory specifications within the Oceans Economy. The NRCS informed the Committee that it was responsible to ensure that food for human consumption was safe and satisfied certain minimum standards set out in the various Compulsory Specifications. It then issues either a health guarantee or a compliance certificate for food that meets these requirements. The health guarantees could only be issued on the basis that the process had been monitored by the NRCS from farm to fork. With regard to imported sea foods, it was reliant on and accepted test reports from laboratories of other countries as long as the laboratory was accredited by a member of the International Laboratory Accreditation Co-operation. Only on this basis would the NRCS issue a compliance certificate.

8.4.2. ***Outcomes of criminal investigations:*** The Committee enquired whether any criminal investigations had been instituted against any employees accused of fraud, and if so, what had been the outcome of these investigations. The NRCS informed the Committee that it had a policy of zero tolerance on fraud and corruption. All allegations of fraud and corruption had been followed up and investigated and the outcome of these investigations had been implemented decisively. In the 2018/19 financial year, the NRCS had received whistle-blower reports alleging irregularities and corruption in the appointment of service providers for its ICT infrastructure and the data migration project at the end of the tender process. A forensic investigation had been instituted and the allegations had been confirmed in respect of the data migration tender. The investigation established that the appointed service provider had not disclosed its relationship with one of the NRCS' employees who had been the project leader and a member of the bid evaluation committee. The employee had also failed to disclose the relationship with the directors of the appointed service provider. Following the investigation, the NRCS cancelled the contract with this service provider and referred the report to the National Treasury for supply chain blacklisting. The implicated employee had resigned with immediate effect; therefore, the NRCS could not institute a disciplinary hearing, but had proceeded to lay a criminal charge of collusion against this former employee. The NRCS awaited the decision of the National Director of Public Prosecutions on this matter.

With respect to Trillicom, no collusion could be established between any employee and the bidding company, but the NRCS had discovered, as a result of the forensic investigation, that Trillicom did not meet the required criteria to be awarded the contract. The bidding committee had been unable to provide the NRCS with the underlying rationale for its scoring and the NRCS had instituted disciplinary action against the two employees that had served on the bidding committee. Furthermore, in the matter relating to Trillicom, the NRCS had been in the process of consulting the National Treasury on finding a resolution.

8.4.3. ***Filling of vacancies:*** The Committee was concerned about the recurring negative audit outcomes received by the NRCS and its failure to implement key recommendations of the AG to address these challenges. Failure to fill critical positions at the NRCS had contributed to this audit outcome. The Committee enquired what steps were being taken by the DTI to address these challenges and whether it had the necessary authority to intervene in this regard.

The NRCS replied that it had taken note of the recommendations of the AG in the 2018/19 audit and had developed an action plan to implement those recommendations. Previously, the AG had not made any concrete recommendations to assist management in addressing the revenue qualification. As part of its turnaround strategy, the NRCS informed the Committee that it had also identified all critical positions, including that of a Financial Manager, Supply Chain Manager, Senior Manager: Human Capital and Chief Information Officer that should be filled. The NRCS announced that the position of Senior Manager: Human Resources had been filled with effect from 1 October 2019. Also, the position of the Chief Information Officer had been filled through a secondment from the State Information Technology Agency (SITA) with effect from 1 September 2019. Furthermore, a recruitment strategy and action plan had been developed to ensure that all critical positions were filled by 24 December 2019.

The Director-General of the DTI responded that he had met with senior management at the NRCS about its failure to address the vacancies and its negative impact on the institution. It had been agreed that the position of financial manager and the manager for the Supply Chain Management must be filled.

8.4.4. ***Implementation of the turnaround strategy:*** The Committee enquired about the timelines associated with the implementation of the turnaround strategy and whether the NRCS had sufficient capacity to ensure that measures outlined were implemented. The NRCS informed the Committee that it was confident that the mechanisms and interventions/measures being put in place would ultimately resolve the legacy issues. It was of the view that it had sufficient capacity, resources and decisive leadership to ensure the implementation of this turnaround plan to improve the audit outcome in the 2019/20 financial year. The NRCS informed the Committee that it would ensure that all critical positions and other identified positions were filled to close the capacity gaps identified by the AG.

8.4.5. ***Modernisation project:*** During the 2018 engagement with the NRCS on its ICT modernisation project, it had informed the Committee that a steering committee had been established to spearhead this project, and that a high-level Audit, Risk and Compliance Committee was overseeing the progress on the project. It was concerning that no progress had been made with respect to the ICT modernisation project. The Committee enquired what the impediments were that had once again caused a delay with the implementation of the ICT modernisation project. The NRCS confirmed that it had appointed an ICT Steering Committee and Audit and Risk Committee to strengthen governance around the implementation of the modernisation project. It was of the view that the appointment of the Chief Information Officer, albeit on a secondment basis from SITA, would assist the NRCS to deliver as per the new commitments. However, the NRCS acknowledged that it had identified various challenges within supply chain management which contributed to the delays with the implementation of the modernisation project. The NRCS assured the Committee that the Supply Chain Manager would be appointed by 24 December 2019 to resolve the challenges within the supply chain environment.

8.4.6. ***Qualified audit opinion:*** The continued lack of performance and progress within the NRCS was a major concern to the Committee. The Committee enquired whether the DTI had considered placing the NRCS under administration given its continued non-performance. The Director-General of the DTI informed the Committee that the necessary turnaround strategy had been developed and should be implemented immediately. Failure on the part of the NRCS management to turnaround the institution would leave the DTI no choice but to advise that it be placed under administration.

8.4.7. ***Financial reporting norms*****:** The Committee enquired what the reasons had been for the financial statements not being prepared in accordance with financial reporting standards as stated in the audit report. The NRCS informed the Committee that it was the role of the CFO to prepare the financial statements in line with the prescripts of the law, and that the CFO should be assisted by the Financial Manager. In the 2018/19 financial year, the CFO had been assisted by consultants in the absence of a financial manager to fill the capacity and skill gap identified. The NRCS undertook to fill this vacancy by 24 December 2019.

8.4.8. ***Findings in relation to revenue qualification:*** The Committee enquired how the NRCS was addressing the findings in relation to the revenue qualification. The NRCS informed the Committee that the qualification in relation to revenue was technical in nature and had been raised by the Auditor-General since 2013. The view of management at the time had been that the qualification could only be resolved through an automated system. However, current management was of the view that the matter could not rely on a systems resolution but that the necessary internal control mechanisms should be strengthened to ensure that the qualification was addressed. The implementation of the ICT modernisation project would complement these internal control mechanisms and assist in strengthening them by automating certain processes. The NRCS had developed a detailed action plan, taking into account the recommendations of the AG.

9. SOUTH AFRICAN BUREAU OF STANDARDS

9.1. Introduction

The SABS falls under the Industrial Development Programme of the DTI. It was established by the Standards Act (No. 24 of 1945) as a Schedule 3B public entity, and is one of the four technical infrastructure institutions. It is responsible for facilitating the development of voluntary industry standards for products, services and systems. It also competes with private industry in offering conformity assessment services certification and laboratory testing to ensure the quality of commodities, products and services for the domestic and export markets. Furthermore, it is the designated local content verification agency.

The SABS' five strategic objectives are to:

- Develop, promote and increase the use of standards;
- Provide integrated conformity assessment service solutions;
- Achieve and maintain financial sustainability;
- Continuously improve its internal systems and process; and
- Create and maintain a high-performance culture.

9.2. Performance for the 2018/19 financial year

9.2.1. Non-financial performance for the 2018/19 financial year

In the 2018/19 financial year, the SABS had nine key performance indicators. Six of these were achieved or exceeded. The SABS reported the following key achievements:

- Sale of standards had increased to R25,9 million compared to R23,5 million in the 2017/18 financial year and revenue from laboratory services had increased by 1,1 percent.
- Eight of the ten IPAP projects to develop national standards had been implemented.
- SANAS and Raad voor Accreditatie[25] (Dutch Accreditation Council) accreditation had been maintained and three additional laboratories had been recommended for SANAS accreditation.
- 28 tender local content verifications at 16 government institutions and 13 product verifications in terms of the Mining Charter had been conducted.
- Customer specific testing services had been reintroduced.
- Four new training courses in the fields of food safety management systems, occupational health and safety management systems (two courses), and for the transition from transition from International Standards Organization (ISO) 17025:2005 to ISO 17025:2017 had been launched.

Table 19: Performance targets by strategic objective for the 2018/19 financial year

Strategic Objective	Performance Indicators/Targets		
	Number	**Targets Achieved/ Exceeded**	**Description of unachieved targets**
Growth: Increase the use of standardisation services by broadening the geographical footprint as well as the scope of services offered	Achieved: 1 Not achieved: 1	• Four new products/services had been offered compared to a target of two new products/services	• R501,3 million had been earned against a target of R560,4 million, namely a 10,5 percent decline
Customer centricity: Put the customer at the forefront of everything the SABS does	Achieved: 2 Not achieved: 1	• 80% of deliverables had been completed as per the IPAP plan. • 8 sector-specific publications had been produced against a target of 4 publications	• Only 51 of the targeted 75 SMMEs had received support through the SABS' services (68% of the target)
Productivity: Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy	Achieved: 1 Not achieved: 1	• R5,3 million of income generated from property had been allocated to fund testing infrastructure against a target of R5 million	• Only 52% of laboratories in the Testing Division had been profitable against a target of 70% was achieved

[25] Dutch Accreditation Council

Strategic Objective	Performance Indicators/Targets		
	Number	Targets Achieved/ Exceeded	Description of unachieved targets
Competent and empowered employees: Develop and retain a competent human resource that is aligned with the mandate of the organisation	Achieved: 2	• 16 technical employees had completed specialist training with leading partners against a target of 10 • 2 doctoral and master's graduates had been recruited or developed to support testing and standards development	

Source: SABS (2019a)

While the target for the number of SMMEs that had received SABS services had not been met, the SABS had indicated that it had supported 101 SMMEs and 89 design innovators. However, for reporting purposes, it could only recognise SMMEs that had been:

- Registered businesses with valid tax clearance certificates;
- Trading with a product or service; and
- Generating an annual turnover of R10 million or less.

Furthermore, the under-performance of laboratories in the Testing Division had been attributed to:

- Low market volumes to support the laboratory operating cost;
- A low revenue base due to lack of environmental testing conditions caused by infrastructure breakdowns, power outages and the delayed commissioning of the plant room after shutdown; and
- Loss of critical skills in some laboratories, including laboratory managers.

9.2.2. Financial performance

In the 2018/19 financial year, the SABS Group's[26] budgeted income had been approximately R823,1 million, while actual income received had only been R813,3 million. The largest share of budgeted income was to be acquired from services rendered and from the sale of products, in testing services, product and system certification, design institute services, and the sale of standards. The funding through transfers from the DTI had accounted for approximately 29 percent of the SABS Group's budgeted income at R234,5 million. However, actual income from the DTI had been slightly lower amounting to R232,4 million. Furthermore, the DTI transfer had been significantly lower than the 2017/18 financial year, where the transfer had been R243,1 million (see table below).

In terms of expenditure, the largest cost item for the SABS Group had been the employee benefit expenditure which amounted to R516,4 million (of which R223,3 million was for the SABS and R293,1 million for SABS Commercial and the Design Institute). Total employee benefit expenditure accounted for 61 percent of total expenditure; however, this declined by 6,4 percent compared to the 2017/18 financial year. Other large expenditure items had been contract services and travel expenditure. It should be noted that all expenditure had decreased compared to the 2017/18 financial year with the exception of consulting and technical fees which had increased by 25 percent for the Group and 68 percent for the SABS. The 25 percent increase had been from R24,9 million in the 2017/18 financial year to R31,1 million in the 2018/19 financial year.

Table 20: Financial performance for the 2018/19 financial year

(R'000)	Group			SABS		
	2018/19	2017/18	Percentage Change	2018/19	2017/18	Percentage Change
Revenue	501 286	514 368	-2,54%	28 691	31 547	-9,05%
Other income	79 569	64 311	23,73%	141 584	135 882	4,20%

[26] It should be noted that the SABS Group consists of the standards setting body (SABS), SABS Commercial and the Design Institute.

Government grants	232 477	243 153	-4,39%	232 477	243 152	-4,39%
Total Revenue	**813 332**	**821 832**	**-1,03%**	**402 752**	**410 581**	**-1,91%**
Other operating expenditure						
Employee benefit expenditure	516 369	551 554	-6,38%	223 289	250 835	-10,98%
Depreciation and amortisation	43 468	55 563	-21,77%	18 899	23 353	-19,07%
Contract services	41 235	45 398	-9,17%	38 639	39 206	-1,45%
Travel expenditure	34 827	34 546	0,81%	6 799	9 232	-26,35%
Advertising expenditure	5 778	7 243	-20,23%	4 025	5 887	-31,63%
Repairs and maintenance	9 108	10 826	-15,87%	5 565	6 681	-16,70%
Consulting and technical fees	31 090	24 883	24,94%	19 057	11 353	67,86%
Grant to subsidiary				20 000		
Other expenditure	165 905	171 308	-3,15%	163 644	177 909	-8,02%
Total Other operating expenditure	**847 780**	**901 321**	**-5,94%**	**499 917**	**524 456**	**-4,68%**
Operating loss	**-34 448**	**-79 489**	**-56,66%**	**-97 165**	**-113 875**	**-14,67%**
Interest received	30 121	29 216	3,10%	38 526	29 212	31,88%
Finance costs	-48	-107	-55,14%	-48	-102	-52,94%
Loss before taxation	**-4 375**	**-50 380**	**-91,32%**	**-58 687**	**-84 765**	**-30,77%**
Taxation		-20 327	-100,00%			
Loss for the year	**-4 375**	**-70 707**	**-93,81%**	**-58 687**	**-84 765**	**-30,77%**

Source: SABS (2019a)

With the total SABS Group expenditure amounting to R847,8 million, the loss for the Group had been R4,4 million. For the SABS, the loss had been higher at R58,7 million. However, this was a significant improvement from the 2017/18 financial year where the losses had been R50,4 million and R84,8 million for the SABS Group and the SABS respectively.

9.2.3. Human resources

The SABS had 887 employees and fixed-term contractors at the end of March 2019. This had been against an approved organisational structure of 948 employees at the end of March 2019; thus it had a vacancy rate of 4,4 percent.

In terms of the employment equity breakdown of employees, 44 percent had been women; 84 percent had been black; and 1 percent had been black people with disabilities. The total turnover rate had been 6,1 percent with 58 newly appointed staff and 87 terminations. In terms of the terminations, there had been 34 resignations, 35 contracts had ended, 10 employees had retired, two had been dismissed, two had been medically unfit, two had been abscondments and there had been two non-work related deaths.

Table 21: Employment equity breakdown as at 31 March 2019

Racial Breakdown	Male	Female	Total
African	368	297	665
Coloured	18	12	30
Indian	32	19	51
White	81	60	141
Total	**499**	**388**	**887**

Source: SABS (2019a)

There had been 21 senior and top managers, of which 28,6 percent had been female and 71,4 percent had been black. A detailed employment equity breakdown of all employees is provided in the table above.

During the 2018/19 financial year, 548 employees (about 61,8 percent of the staff complement) had participated in 907 training interventions, such as short training courses, attendance at seminars and workshops, management and leadership development programmes, and executive coaching programmes. The SABS had invested about R2,2 million in these training interventions. It had also assisted employees with bursaries to the value of R0,2 million compared to R1 million in the 2017/18 financial year.

It should be noted that there had been a collective unfair labour practice dispute lodged by managers in relation to the provision of benefits.

9.2.4. Audit outcomes

The SABS had received a qualified audit opinion for the 2018/19 financial year. According to the AG, the main reasons for the qualification on the consolidated financial statements had been:

- *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 (IAS) 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 (IFRS) 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 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 PFMA. This had been because the entity did not have an adequate system for identifying all irregular expenditure.

The basis for the qualification on the separate financial statements had been:

- *Property, plant and equipment*: See comment above.
- *Investment property*: The entity had incorrectly accounted for a prior period error related to upgrades, renovations and improvements to buildings as separate assets and not capitalised to the cost of the buildings in accordance with IAS 40, Investment property.
- *Loan to group companies*: The entity had not correctly applied the expected credit loss requirements relating to loans to group companies in accordance with IFRS 9, Financial instruments. This had been because the entity had not considered all terms and conditions and the significant change in the credit risk relevant to the loan in the calculation of the expected credit losses. Consequently, the loan to group companies and other expenditure had been materially misstated. This could have had an impact on the loss for the year and accumulated profit.
- *Revenue from subscription fees for Standards*: See comment above.
- *Irregular expenditure*: See comment above.

The AG 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 terms of non-financial performance, the following objectives had been assessed to determine whether their reported performance information was useful and reliable:

- Strategic objective 1: Growth,
- Strategic objective 2: Customer centricity, and
- Strategic objective 3: Productivity.

The AG had not been able to obtain sufficient appropriate audit evidence for the reported achievement of the targets for the following performance indicators:

- Revenue from services (Growth), and
- Percentage of laboratories that are profitable (Productivity).

The AG reported that this had been due to the financial qualification on the revenue from laboratory services and standards: subscriptions fees. Therefore, it had not been possible to determine whether any adjustments had been required to the actual reported achievements. The AG had not identified any material findings on the usefulness and reliability of the reported performance information for the Customer centricity objective.[27]

9.3. Financial and non-financial performance as at 30 June 2019

9.3.1. Non-financial performance

For the first quarter, the SABS had 14 performance targets. Of those targets, only two targets had been achieved. The two targets that had been achieved were that (i) it had managed to reduce the SABS Group's targeted loss for the first quarter and (ii) it had maintained its relevant accreditations, which were critical for it to continue operating.

The following targets had not been achieved:

- *Percentage of deliverables completed as per the IPAP Plan*: South African National Standards (SANS) 17, the South African National Standard for glass and plastics in furniture, had been planned for publishing in quarter 1 However, this had been delayed, as it had been referred back to the working group committee for additional work. This was expected to be published in quarter 2. However, SANS 30500[28] had been completed ahead of its targeted schedule for the fourth quarter.
- *Average number of days to publish a standard*: The targeted average had been 400 days. However, the SABS' average for the first quarter had been 443 days. The average had been impacted on by the finalisation of a long outstanding project, which had been outside the control of the SABS. If this project was excluded, the turnaround days reduced to 340 days.
- *Number of SMMEs and BIs that received design, innovation and conformity assessment services*: Only one SMME against a target of 20 SMMEs had been supported. This had been as a result of the operating model of the Design Institute having been under review. The SABS expected that this number would increase once the Memorandum of Understanding was finalised with the Department of Agriculture, Forestry and Fisheries. Furthermore, once the SABS received compliance documents from three SMMEs supported during the first quarter, this number would increase to four.
- *Percentage of women; youth; and people with disabilities supported*: These three targets had not been met due to the operating model of the Design Institute having been under review. The SABS reported supporting 44,6 percent women, 23,1 percent youth and 1,7 percent people with disabilities against targets of 50 percent, 30 percent and 2 percent respectively.
- *Customer satisfaction rate*: The SABS had achieved a customer satisfaction rate of 71 percent against a target of 75 percent. It attributed this to unfavourable feedback for services delivered by the Laboratory Services Division (58,2 percent satisfaction); while all other divisions had achieved in excess of 77 percent. The SABS had reported that the Laboratory Services Division had been facing challenges including human capital constraints and inconsistent environmental conditions that had been impacting on service delivery.
- *Increase in number of active customers*: The SABS had lost 101 active customers during the first quarter. The target had been to maintain the number of active customers. It clarified that

[27] SABS (2019a: 57-58)

[28] SANS 30500 refers to the South African National Standard for Non-sewered sanitation systems – Prefabricated integrated treatment units – General safety and performance requirements for design and testing.

this had been due to the continued impact of legacy operational challenges. This was being addressed as part of the turnaround plan.

- *Group revenue generated*: Only R94,3 million had been generated against a target of R137 million. The SABS explained that this had been as a result of lower than expected demand in certain areas and inconsistent laboratory conditions that impacted on testing services.
- *Percentage of achievement of contracted delivery times met*: The Testing Division had only met its contracted delivery times 71 percent of the time; against a target of 80 percent. This had been attributed to a lack of an appropriate reporting system to monitor turnaround times at a job level. Senior management would be monitoring this on an ongoing basis.
- *Cost-to-income ratio of SABS Group*: The cost-to-income ratio had been 117 percent against a target of 111 percent, as less revenue had been generated than expected.
- *Total training spend as a percentage of the salary bill*: Total training spend had been 8 percent of the salary bill instead of 60 percent. Employees' personal development plans have been put in place and there were efforts being made to increase training participation rates in the second quarter.

9.3.2. Financial performance

For the first quarter of the 2019/20 financial year, its budgeted income had been approximately R210,8 million; however, actual income had been 18,8 percent less than budgeted at R171,2 million. Commercial revenue had been the largest source of income for the SABS at R94,3 million (55,1 percent of total revenue received). This source of income had been 30 percent lower than the budgeted income. This had been attributed to under-performance in the Certification and Laboratory Services Divisions. The second largest source of income had been the government grant received from the DTI of R65,9 million (38,5 percent of total revenue received).

The SABS had spent R181,5 million compared to budgeted administrative and operating expenses of R220,1 million. Total administrative and operating expenses had been 17,5 percent below budget. Compensation of employees accounted for 74,5 percent of total administrative and operating expenses. Actual spending on its employees had been R16,1 million lower than budgeted for the first quarter; due to vacant positions. Expenditure on goods and services had been 32,7 percent below the budgeted amounts. This had been due to a R7 million savings on contract services, R2,1 million savings on consulting fees and R5 million on municipal services.

9.3.3. Human resources

By the end of the first quarter, there had been 879 employees and fixed-term contractors against a reduced organisational structure of 929 posts at the end of the first quarter. Therefore, the SABS had a vacancy rate of 5,4 percent. It considered 17 of the vacant posts to be critical. In terms of the employment equity breakdown of employees, 45 percent had been women; and 84 percent had been black.

As mentioned previously, the SABS reported that there had been human capital challenges in the Laboratory Services Division. These included:

- Inadequate technical expertise in some key test areas due to vacancies, which constrained productivity.
- A loss of skills in the High Voltage and Short Circuit laboratories that posed a significant accreditation risk for these laboratories.
- One-man laboratories posed a threat to plans for skills transfer.

During the period under review, there had been six new employee relations matters reported and seven matters from the previous period. Four had been grievances. There had been three CCMA cases pending and two applications filed at the Labour Court. In addition, there had been four disciplinary actions instituted; of which one had been finalised and the employee had been dismissed.

9.4. Key issues raised by the Committee on the SABS

The following concerns were raised related to the performance of the SABS during the Committee's deliberations:

9.4.1. ***Restraint of trade:*** When employees leave a company there would normally be a cooling-off period before they may become active in the same market as their former employer. It would appear that this had not been the case at the SABS, as former employees were establishing businesses in direct competition with the SABS immediately after their departure. The Committee enquired whether there were any mechanisms in place that would ensure that former employees did not immediately establish businesses after they

had left the SABS. The SABS informed the Committee that restraint of trade clauses had only been included in selected senior manager's employment contracts. It was of the view that owing to the constitutional rights of citizens, the restraint of trade clauses had in some instances been difficult to implement. The Standards Act made provision for confidentiality of SABS information and the SABS was investigating mechanisms to better protect its interest within the ambit of the law.

9.4.2. ***Enforcement of compliance***: Standards underpin the successful implementation of industrial policy. In the informal economy, products are being manufactured and sold to consumers without the SABS' stamp of approval. It would appear that there was inadequate enforcement of standards with regard to products manufactured in South Africa, which may lead to health and environmental safety hazards. The Committee enquired how the SABS intended to close this gap and whether it required additional powers to ensure compliance with standards of products within the market. The SABS informed the Committee that the application of SANS, which were not adopted by regulators or referenced in law, were voluntary. Certain standards are adopted by regulators to set compulsory minimum standards, especially in relation to health and safety considerations. Thus Regulators, such as the NRCS, may adopt a SANS as a compulsory specification or reference a SANS in legislation or in regulation to make it compulsory. In such instances, that regulator would be responsible for enforcement of the specification. The SABS was of the view that it did not have a legislative mandate to enforce compulsory specifications specified by a regulator. As a conformity assessment service provider, the SABS may, however, provide certification and testing services to regulators to support their monitoring and enforcement functions.

9.4.3. ***Accountability***: The Committee enquired whether any individual(s) were being held accountable for the operating loss incurred during the 2018/19 financial year. The SABS acknowledged that its operating loss of R80 million in the 2017/18 financial year, had mainly been driven by shortcomings in the areas of policy decisions, management and operational failures. This had resulted in a significant loss of customers and revenue and had caused significant reputational damage to the institution. These shortcomings had also resulted in the Executive Authority dissolving the Board and placing the SABS under administration following a due and proper process, leading to the resignation of the CEO. The Administrators had appointed an Acting CEO and had developed a turnaround strategy. This turnaround strategy was being implemented to further strengthen the institution and return it to financial and operational sustainability. Furthermore, the SABS informed the Committee that, subject to due and proper process considerations, consequence management in the institution was being implemented. With regard to the 2018/19 financial year, no performance bonuses had been paid to the SABS staff.

9.4.4. ***Impact of illegal imports***: Illegal imports or grey goods could have a negative impact on local businesses and could ultimately be a burden on the economy. The Committee enquired to the impact of illegal imports and grey goods on the SABS' ability to grow its revenue base. The SABS informed the Committee that illegal imports or grey products did not directly impact on the SABS's ability to generate revenue. The SABS' value chain of services (standards, certification, testing and related services such as local content verification) are provided to companies and entities that choose to procure these standards and conformity assessment services. Where products are required to comply with compulsory specifications or legislation, the responsible regulator would be responsible for enforcing the required specification. This would also include "grey goods" or products which have been illegally imported. The SABS may then be a service provider to the regulator to provide certification and/or testing services.

9.4.5. ***Budget allocation***: Given the 2018/19 financial performance of the SABS and the current economic environment, the Committee enquired whether the SABS foresaw a further decline in its budget allocation and what mechanisms were in place to mitigate the impact of further budget cuts. The SABS informed the Committee that it was not responsible for decisions related to public sector fiscal transfers from its shareholder, the DTI. Notwithstanding this, and given the current financial constraints, the SABS was preparing a financial plan for the next three years assuming a reduction in its budget allocation. To mitigate against a reduction in its allocation, the SABS informed the Committee that it was increasing its focus on revenue generation as part of Phase 2 of the turnaround strategy as well as applying stringent cost containment measures. In addition, the SABS was preparing

a document setting out its funding requirements and financial stability challenges which would be shared with the DTI.

9.4.6. ***Outcome of forensic audits***: During previous engagements with the SABS, it had informed the Committee that a number of forensic investigations were being undertaken to determine the root causes of the organisation's decline and whether any corrective actions should be taken. It would appear that there was a reluctance to complete these investigations and take the necessary corrective actions. The Committee enquired what the status of these forensic investigations was and whether any criminal charges were being considered. The SABS refuted the view that there was reluctance on its part to complete investigations and undertake corrective actions where necessary. On the contrary, from the time it had been placed under administration, the SABS had strengthened its Internal Audit function and capacity, and had strengthened an independent whistle-blower hotline facility. In addition, the Administrators had appointed a fully functional and competent Audit and Risk Committee, which had expeditiously ensured that all legal and compliance functions set out in the Standards Act, the PFMA and the Public Audit Act (No. 25 of 2006), as well as any other legal prescripts, were fully and expeditiously adhered to. This would also be in respect of consequence management – as and when appropriate.

With regard to the Eskom matter, the SABS informed the Committee that the Executive Authority had instructed the former Board of the SABS to conduct a forensic investigation into allegations of impropriety with respect to coal tests undertaken by the SABS for Eskom arising from the statements made in Parliament by the Acting CEO of Eskom, Mr M Koko. The terms of reference for the investigation had been finalised by the former Board and SizweNtsalubaGobodo (SNG) had been contracted to complete the investigation. The investigation had been completed and the report had been adopted in June 2019. The full report had been submitted to the Executive Authority and to Eskom. The Administrators had also instructed that the recommendations of corrective actions with respect to Standard Operating Procedures in testing should be implemented.

As a result of the loss of the SABS' accreditation from Verband der Automobilindustrie, contracted by the International Automotive Taskforce, the SABS informed the Committee that it had commissioned a forensic investigation in April 2019 to ascertain the reasons for management and operational failure which, during the tenure of the former Board, had led to the loss of accreditation in 2018. SelekaXabisa CA Incorporated had been appointed as the independent forensic investigators. The investigation had not yet been completed but a report would be submitted to the Executive Authority on completion. Subject to the findings of the forensic investigation, appropriate consequence management would be instituted against staff members who must be held accountable in accordance with the provisions of the law.

Furthermore, the SABS informed the Committee that in light of the whistle-blower's report, the SABS had commissioned an independent forensic investigation into allegations regarding irregular appointments at the SABS. Ngwazi Consulting had been appointed in September 2019. On the completion of the investigation, and subject to due and proper process, appropriate consequence management measures would be initiated.

9.4.7. ***Public-private partnership***: The Committee enquired whether the SABS was considering a public-private partnership to address some of its financial challenges. The first priority of the Administrators, according to the SABS, was to ensure that the SABS returned to optimal levels of institutional (policy, governance and oversight) and financial, management and operational competence and sustainability. This complex task had been set out in a turnaround strategy submitted to the Executive Authority. Additional work had been undertaken to strengthen and further develop the turnaround strategy. Having achieved a relative degree of financial and operational stability, the SABS was of the view that work should commence to scope areas where strategic partnerships could be developed with public and private sector institutions. This would enhance and grow the SABS' business and secure optimal services and service delivery in the standards and conformity assessment value chain. This may also include an investigation on the appropriateness of public-private partnerships within the prescripts set out by the National Treasury.

9.4.8. ***Employment of women***: Employment of women at the SABS had been at 44 percent which was below the threshold target of 50 percent. The Committee enquired what

mechanisms the SABS was considering, if any, to address this anomaly. The SABS confirmed that the employment of women, youth and people with disabilities was an important focus area . As part of its recruitment process, an unconditional emphasis was being placed on the appointment of women into vacant positions at all levels of the institution. Furthermore, a key performance indicator, targeting a ratio of 50 percent women representation, had been included in its Annual Performance Scorecard as reflected in the approved 2019/20 Corporate Plan.

9.4.9. ***Delay in payment of suppliers***: The Committee requested an explanation for the delays in paying suppliers that resulted in fruitless and wasteful expenditure of R58 000 for the financial year. The SABS informed the Committee that the delays in payment of suppliers arose as a result of operational inefficiencies, such as late submission of invoices to the finance department for payment. A centralised invoice receiving mailbox would be created to ensure invoices were received centrally and processed expeditiously to avoid late payments.

9.4.10. ***Financial viability of the SABS***: The Committee enquired how the SABS would ensure that SABS Commercial remained financially viable. The SABS informed the Committee that it was currently developing Phase 2 of the turnaround strategy which would set out measures and interventions to achieve financial sustainability over the next 18 months. The focus would continue to be placed on integrated operational excellence and productivity and to address critical operational inefficiencies to secure revenue growth. An infrastructure and equipment investment plan would also focus on critical maintenance requirements and revenue generation potential.

9.4.11. ***Audit findings***: The Committee requested a breakdown of the action plans that had been developed to address the AG's findings. With respect to the audit findings, the SABS informed the Committee that it would be addressing the findings as follows:

- *Assets (componentisation)*: The SABS was in the process of appointing a structural engineer to value the various components in the buildings so that these could be accounted for separately. This would resolve the asset findings.
- *Revenue: Laboratories*: The SABS was currently working with its IT department to implement system controls that would enable the sequencing of samples received. This would ensure that all samples received, could be clearly tracked to ensure completeness of revenue. Further to this, a manual review was being instituted of all sample registers to ensure that there were no missing sequences.
- *Split between revenue and income received in advance – subscriptions*: A process was currently underway to manually review all subscription contracts for the past two years. This would ensure that the contract date was correct which would enable the SABS to accurately split the amount between revenue and income that should be accounted for per financial year. Further to this, the IT department was developing a solution which would ensure mandatory capturing of contract dates, to ensure the issue did not arise again.
- *Credit losses – loans to group companies*: The SABS was working with the DTI to obtain approval for the intercompany loan from the Minister of Finance. Further to this, a technical expert would be sourced to ensure compliance with the accounting standard at year-end. Guidance was also being sought from the AG on this technical matter.
- *Irregular expenditure – resulting from contract overspend*: All items of irregular expenditure were currently under investigation or in the disciplinary process. Following which, condonation would be sought from the National Treasury. A system had been introduced to track contract spend to ensure this did not reoccur. Further to this, a manual check was being performed before any purchase order was created to ensure that any irregular expenditure was identified, investigated and reported. A General Manager had also recently been appointed in the procurement team to ensure compliance with legislation.

PART D: CONCLUDING REMARKS AND RECOMMENDATIONS

10. CONCLUSIONS

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

10.1 The Committee welcomed the clean audits achieved by the Departments of Trade and Industry and of Economic Development, as well as 15 of its 17 entities, during the 2018/19 financial year.

10.2 The Committee welcomed the progress made with respect to employment of women within the departments and within some of its entities over the last few years. However, the Committee encouraged all entities and boards reporting to the Minister of Trade and Industry to prioritise the appointment of women, particularly women from previously disadvantaged backgrounds, and people with disabilities to meet the employment equity targets of at least 50 percent and 3,1 percent respectively.

10.3 Support for companies through incentives and funding from the Industrial Development Corporation that contribute towards industrialisation and economic development should not be underestimated. However, strategies should be implemented to improve the value for money from such interventions to ensure greater opportunities for job creation.

10.4 The Committee welcomed the progress made in facilitating the beneficiation strategy and the development of at least five mineral-based value chains. There is a need for beneficiation of other natural resources, such as agriculture, to be advanced, as some of these alternative value chains offer greater job opportunities for lower skilled labour.

10.5 The Committee welcomed the efforts by the Department of Trade and Industry to broaden beneficiation beyond the scope of iron-ore and steel, to include platinum metal groups, titanium, polymers and upstream mining input. However, the Committee was of the view that the Department needs to develop a system to broaden beneficiation and to monitor the impact of its interventions on these sectors.

10.6 The Committee noted the slow progress in achieving higher economic growth and lowering the unemployment rate. While industrialization plays a critical role in contributing to these objectives, there was a need to address the skills gap to empower the labour force to become economically active citizens in the economy. In this regard, the Minister of Trade and Industry should consider developing partnerships with the Departments of Basic Education and of Higher Education, Science and Innovation, as well as the private sector, to craft curricula geared to develop the requisite skills.

10.7 While the Committee was encouraged by the number of designated products and services, the local content requirements and the designation of the South African Bureau of Standards as the local verification agency, the enforcement of local content procurement remains a challenge. A coordinated approach to monitor and enforce this was essential and should include the National Treasury, the Department of Trade and Industry, the Economic Development Department, the South African Bureau of Standards and the Office of the Auditor-General. The Committee was of the view that local content requirements should be specified within the tender documents and in the final contract signed. Contracts should include the timelines for verification by the South African Bureau of Standards, as well as corrective and punitive measures if the winning bidder fails to comply.

10.8 The Committee noted with concern the continued negative impact of administered prices and ageing municipal infrastructure on the implementation of industrial and beneficiation strategies and South Africa's ability to attract investment, as well as on the decentralisation of the economy. There is a need for holistic policy coordination and coherence, as well as effective implementation to address this.

10.9 The Committee welcomed the engagement between the Economic Development Department and municipalities to address the challenges associated with electricity and its impact on the productive sectors of our economy, particularly in the steel and automotive sectors, as well as other sectors that have high energy users. The Committee encouraged the Department of Trade and Industry and the Economic Development Department to engagement other sectors in finding resolutions with respect to the provision and cost of electricity.

10.10 The Committee welcomed the Economic Development Department's intervention to unblock the water challenges experienced at the Goldi Chicken processing plant. The Committee acknowledged challenges experienced within the broader poultry industry, including

allegations of dumping, and supported measures to protect the domestic poultry industry against dumping where these allegations are established to be true.

10.11 The One-Stop Shop concept has been developed to facilitate investment into South Africa by housing all the relevant national, provisional and local decision-making government departments and entities. This was to reduce red tape and expedite the establishment and operational phases of investors. However, the Committee noted that the processing and granting of visas remains a constraint for foreign direct investment. The Committee welcomed the initiative to introduce e-visas, as this may improve the turnaround time for these visa applications.

10.12 The Committee welcomed the use of Special Economic Zones and the revitalisation of industrial parks as a means to decentralise and diversify the national industrial base from the economic hubs of Gauteng, KwaZulu-Natal and the Western Cape. The utilisation of industrial parks could serve as a catalyst for investment to revive rural and township economies.

10.13 The Committee was encouraged by the Department of Trade and Industry's efforts to embark on consultations with provincial and local authorities on possible rebates to attract new investment to the industrial parks. The Department of Trade and Industry should brief the Committee on progress made in this regard within the next six months and every six months thereafter.

10.14 The Committee expressed its concerns around the continued inability of the National Regulator for Compulsory Specifications to resolve its technical qualification on the revenue collected from levies over the last six years. This matter had been raised by the Office of the Auditor-General and the previous Committees and to date no resolution has been found. The Committee considered the failure to implement the Office of the Auditor-General's recommendations as extremely serious and urged the National Regulator for Compulsory Specifications to find a solution.

10.15 It would appear that this technical qualification was exacerbated by the National Regulator for Compulsory Specifications' inability to fill and retain critical senior management posts. The Committee urged the National Regulator for Compulsory Specifications to address the budgeted vacancies and to put measures in place to resolve the ongoing labour challenges and the negative organisational dynamics.

10.16 The Committee was concerned that the National Regulator for Compulsory Specifications did not have internal capacity to compile its financial statements in accordance with the relevant financial reporting standards. This matter had been raised by the Office of the Auditor-General in the past.

10.17 The Committee welcomed the proactive steps the National Regulator for Compulsory Specifications has taken to implement consequence management measures in relation to its tender processes to reduce irregular expenditure. However, effective internal control measures should be implemented to avoid similar incidences from reoccurring.

10.18 The Committee noted that no significant progress had been made with respect to the Information and Communication Technology modernisation project. Failure to expedite the implementation of this project resulted in, once again, poor performance in the processing of Letters of Authority, and lack of coordination between its operational business units and support functions leading to poor record management, among others.

10.19 The Committee was of the view that the National Regulator for Compulsory Specifications may not have the necessary capacity to effectively manage the procurement process to develop its Information and Communication Technology systems as part of the Information and Communication Technology modernisation project.

10.20 The National Regulator for Compulsory Specifications should brief the Committee on its turnaround strategy by the end of November 2019 and on progress on its implementation of its turnaround strategy and on the Information and Communication Technology modernisation project every six months.

10.21 The Committee welcomed the progress made by the South African Bureau of Standards since it had been placed under administration. This progress related to achieving a relative degree of financial and operational stability, and re-establishing proper functioning governance structures. However, the Committee recognised that the South African Bureau of Standards needed to continue implementing its turnaround strategy to ensure its ability to operate optimally. This was critical for it to continue to offer critical testing capacity for the public good and to reassert its position as a preferred service provider for conformity assessment services and laboratory testing. The South African Bureau of Standards should brief the Committee on progress made in this regard within the next six months and every six months thereafter.

10.22 The Committee welcomed the proactive approach by the Acting Chief Executive Officer in relation to improving customer relations to ensure that the South African Bureau of Standards is able to reposition itself to target appropriate products and services that would address the needs of its stakeholders. This would assist the South African Bureau of Standards to re-establish its brand and to grow its revenue base. There is also a need for the South African Bureau of Standards to raise awareness of the benefits of standards conformity and quality assurance to business.

10.23 The Committee acknowledged the important role the South African Bureau of Standards and its Design Institute could play in supporting small businesses by assisting them with conformity assessment and facilitating their design and commercialisation processes respectively.

10.24 The Committee urged the South African Bureau of Standards to address its audit findings and put the necessary internal control systems in place to address these.

10.25 The Committee welcomed the conclusion of some of the forensic investigations and awaited its tabling to Parliament, but would also request that the Minister of Trade and Industry submits the final reports on outstanding forensic investigations once these were completed.

10.26 The Committee encouraged the Minister to intensify oversight over the National Regulator for Compulsory Specifications and the South African Bureau of Standards especially while these entities were in the process of implementing their turnaround strategies and their audit action plans to restore good governance.

11. APPRECIATION

The Committee would like to thank the Minister of Trade and Industry, Mr E Patel, the Director-General, Mr L October, the Acting Director-General, Dr Tom, and the National Regulator for Compulsory Specifications and the South African Bureau of Standards, as well as their management teams, for their cooperation and transparency during this process. The Committee also wished to thank its support staff, in particular the Committee Secretary, Mr A Hermans, the Content Advisor, Ms M Sheldon, and the Researcher, Ms Z Madalane, for their professional support and assistance in drafting this report. In addition, the Committee thanked the Committee Assistant, Ms Y Manakaza, for assisting it during this process. The Chairperson wished 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.

12. RECOMMENDATIONS

Informed by its deliberations, the Committee recommends that the House requests that the Minister of Trade and Industry should consider:

12.1 Engaging the Minister of Finance, to coordinate the monitoring and enforcement of local content requirements as underpinned by the Preferential Public Procurement Framework Act.

12.2 Submitting the final reports on the forensic investigations undertaken by the National Regulator for Compulsory Specifications and the South African Bureau of Standards once these are completed.

12.3 Increasing the allocation to incentive programmes to facilitate deeper industrialisation, investment, industrial decentralisation and increased job opportunities.

12.4 Increasing the government grant to the South African Bureau of Standards to facilitate small, medium and micro enterprises support and local content verification in the outer years of the Medium-Term Expenditure Framework.

12.5 Assisting the National Regulator for Compulsory Specifications with its procurement process to implement the Information and Communication Technology modernisation project.

Report to be considered.

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